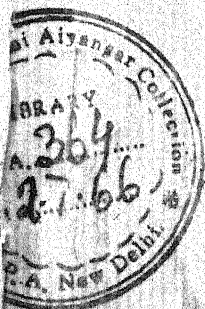


PRINCIPLES OF POLITICAL ECONOMY

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PREFACE

WHEN I was appointed in 1880 to the Chair of Political Economy in the University of Edinburgh I made several good resolutions. One that I kept was not to write out my lectures in full. With short notes it is much more easy to alter the material, and to adjust the emphasis according to the development of the subject or changes in affairs. To begin with, I took Mill's *Principles of Political Economy* as a text-book. Mill mastered and expressed with great lucidity and force of style all that he considered best in his predecessors, and if he was not very original himself he has been the cause or occasion of originality in others. In England at any rate many of the recent changes in economic theory may be traced to the criticism or development of Mill's teaching. At the same time the abundance of these commentaries—to say nothing of the work of both foreign and English writers on independent lines—has rendered Mill's treatment year by year less satisfactory as a survey of the whole subject, though it is still excellent for students who have time to trace the growth of economic thought.

The present work is intended to cover the same ground as that of Mill. It has grown up out of my notes in the way described, and whilst presenting the older doctrines takes account also of subsequent modifications. It must be regarded, however, not so much as an abstract of the

opinions of others as an independent attempt to recast the subject in the light of these opinions.

In reality I owe far more to Adam Smith than to Mill. The great defect of Mill's work is the want of historical knowledge, whilst a large part of the *Wealth of Nations* is history of the highest order. I have availed myself of the authority of the older master to include a much greater amount of history than is usual in a statement of principles. The recent attention devoted to economic history seems also to make this procedure desirable.

The mode in which the materials for this work were gradually collected and modified renders it impossible for me to make due acknowledgment to every writer, though I have tried to do so throughout the book. A teacher cannot trace the origin of every change of exposition.

I must, however, express my great indebtedness to Professor Sidgwick and Professor Marshall, not only for their published writings but for the influence of their teaching whilst a student at Cambridge—to the former especially for the ideas recently expanded in the *Elements of Politics*¹, to the latter for the more purely economic work that has now taken a permanent form in the *Principles of Economics*. I take the greater pleasure in this acknowledgment as I differ from both in at least one favourite doctrine.

Dr. Keynes has kindly revised the proofs whilst passing through the press, and my colleague, Professor Wallace, has aided me with his practical knowledge in the chapters on land and agriculture. Mr. A. B. Clark, M.A., a former pupil, has prepared the Index.

J. SHIELD NICHOLSON.

UNIVERSITY OF EDINBURGH,
September 1893.

¹ Cf. also the same writer's *Principles of Political Economy*, Book III.

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PRINCIPLES OF POLITICAL ECONOMY.

INTRODUCTION.

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INTRODUCTION.

§ 1. *Definition of Political Economy.* As it is impossible to compress a treatise into a sentence, it follows that a preliminary definition of any science can be neither adequate nor exhaustive. At the same time it seems as reasonable as it is usual to indicate in an introductory chapter the nature of the subject-matter, the objects to be attained, and the methods to be adopted, in the systematic treatment of any department of knowledge. Such a preliminary statement is especially desirable in the case of political economy, in which both the adjective and the substantive naturally suggest what most writers carefully exclude, for political economy is usually held to have little or nothing to do with general politics on the one hand or domestic economy on the other. Its province may, perhaps, be best described provisionally in the words of Adam Smith, as an inquiry into the nature and causes of the wealth of nations. This short title has been amplified and formalised by later writers into the science which treats of the laws of the production, distribution, and exchange of wealth. To this description some have added a department of consumption, and others the principles of governmental control, or the art of political economy. It is noteworthy, however, that on the whole, at any rate in the case of English writers, the field has been contracted. Many topics have

dropped from systematic treatment which were included by Adam Smith, as, for example, the expense of justice, of defence, and of education both secular and religious. The subject, it may be alleged, has gained in exactness what it has lost in breadth, and has only obeyed the tendency to specialisation common to all sciences. There has, unquestionably, been a gain in exactness, especially since the application of mathematical ideas; but the natural reaction against this abstract treatment threatened at one time to break down all boundaries, and to make political economy as wide and vague as general sociology. In the present work an attempt will be made to state with precision the general theory without reducing it to a branch of applied mathematics, and to build on the broad foundations of Adam Smith and Mill without trenching unduly on the domain of ethics, jurisprudence, or politics. The abundance of material is so great that the main difficulty is in selection and rejection, or, in one word, in proportion. There is not a chapter in the *Wealth of Nations* which could not now be enriched from the subsequent labours of historians, philosophers, and jurists as well as of professed economists.

The history of any progressive nation reveals great differences in the variety and the amount of its wealth at different times; it shows fundamental changes in the methods of production, distribution, and exchange. A comparison of existing nations, scattered over the world, furnishes living examples of the records of the past. Religion, art, government, morality, and other forces have influenced, and continue to influence, nations both as regards the nature and the causes of their wealth; but that the phenomena of wealth are capable of separate classification, and the causes of separate investigation, the extensive literature of political economy gives abundant testimony. With the *Wealth of Nations* more than a century old, it is absurd to go about to prove that it could not have been written.

§ 2. *The Popular Conception of Wealth.* But what is wealth? At first sight it seems sufficient to reply in the words of Mill, that every one has a notion sufficiently correct for common purposes of what is meant by wealth. It may, however, be said, with a similar impatience of metaphysical nicety, that every one has for common purposes an equally adequate idea of right and wrong according to the laws of his country, and ignorance of the law is never admitted as a justification of the transgressor. Yet the author of a celebrated law book did well to advise the student in the first place to get rid of every idea that he had formed on the subject; and, for the acquisition of almost every art and science, it is generally recognised that it is better for the mind to be at the outset a *tabula rasa* than impressed by the runic characters of popular opinion. Mill himself after the passage quoted at once proceeds to show by the example of the Mercantile system that an erroneous view of the nature and uses of wealth gave, for many generations, a false direction to the commercial policy of Europe. To Mill the error appeared so glaring that he goes on to say: "It often happens that the universal belief of one age of mankind—a belief from which no one was, nor without an extraordinary effort of genius and courage could, at the time, be free—becomes to a subsequent age so palpable an absurdity, that the only difficulty, then, is to imagine how such a thing can ever have appeared credible." As regards the particular policy¹ which called forth this expression of opinion, there is little doubt that Mill was guilty of exaggeration, but there can be no doubt as to the truth of the general position. In the picturesque language of Bacon: "The idols of the market-place are the most troublesome of all—those, namely, which have entwined themselves round the understanding from the associations of words and names. For men imagine that their reason governs words whilst, in

¹ Cf. Roscher, *Geschichte der National-Oekonomik in Deutschland*; and Cunningham, *Growth of Industry and Commerce*, Vol. II.

fact, words react upon the understanding; and this has rendered philosophy and the sciences sophistical and inactive." And in political economy, above all the sciences, we may expect the idols of the market-place to abound. Industrial history is full of examples of stubborn fallacies which would at once have been loosened by a Socratic induction, and altogether dispelled by a scientific analysis. It is only the deceptive familiarity of common discourse which conceals similar errors at the present time. Accordingly, in the opinion of the present writer, it is still one of the main functions of the economist to discover what ideas the words stand for, and to analyse vague and complex notions into their component elements.¹ It was soon observed that the term wealth required a critical exposition of this kind, and considerable labour has been devoted to the task.

§ 3. *The Economic Conception of Wealth.* The first sittings—again to adopt Baconian language—of the popular usage of the term wealth by half a century of systematic writers resulted in the definition adopted by Mill. "Wealth," he writes, "may be defined all useful or agreeable things which possess exchangeable value; or, in other words, all useful or agreeable things which cannot be obtained in the quantity desired without labour or sacrifice." The object of this definition was to make explicit in common language what was supposed to be implicit in common thought as to the nature of wealth. At once, however, the question arose: Does this definition exclude or include more or less of the things which are as a matter of fact embraced in the popular classification or inventory of wealth? In the language of logicians: Does the denotation correspond to the connotation? This

¹ "What we gain by discussing a definition is often but slightly represented in the superior fitness of the formula that we ultimately adopt; it consists chiefly in the greater clearness and fulness in which the characteristics of the matter to which the formula refers have been brought before the mind in the process of seeking it."—SINGWICK, *Principles*, Bk. I., Ch. II., § 1.

general question was again resolved into a number of special tests, of which the following are prominent examples: Does the term "things" include immaterial as well as material things? Does exchangeable value imply that the things must be actually capable of transference themselves, or is it merely a right which is transferred? Is exchangeable value essential to the wealth of a nation as distinct from that of an individual? Must the things be comparatively permanent and capable of accumulation? Are things of no use to any one but the owner a part of his wealth? Is labour a necessary foundation? Is the wealth of the nation simply the sum total of the wealth of individuals? These questions—and they are only typical, and taken almost at random—were clinched by an appeal to particular instances; and much ingenuity was displayed in considering such examples as skill, credit, wild animals, minerals in the bowels of the earth, bank money not in the vaults of the bank, break-waters, industrial organisation, the natural and indestructible powers of the soil, the song of a *prima donna*, and the advertising connection of a newspaper. Nor is it sufficient to say of science as of law *de minimis non curat*, for in ideas as in creatures the border line of species is often most instructive.

The conflict of answers suggested the necessity of a deeper analysis, and it soon appeared that the definition contained conceptions which demanded a more careful explication than wealth itself. Things were no longer described as useful or agreeable, but were said to possess *utility*. Common thought, aided by a vague reminiscence of Bentham, and the utilitarian philosophy, might acquiesce in the definition of utility as 'the capacity to satisfy a desire or serve a purpose,' however trivial, ornamental, or wasteful; but when economists generally adopted the distinction made by Jevons between final and total utility, they passed the extreme limits of popular phraseology and comprehension.

Again, as regards the characteristic of exchangeable

value, which is supposed to be a simple and obvious attribute of wealth, Adam Smith had already exposed one fundamental ambiguity,¹ and had lost his way in another;² Ricardo had discovered and Mill had expressed other distinctions; but the conception of value was still misty until Cournot and the mathematicians applied their analysis. Long before this point was reached common thought was again left behind. Common thought, for example, has no more accurate conception of 'things in general' than of a 'thing in itself.'³

Even *labour* was not left to bear its natural and obvious meaning, whatever that may be. The first of the notes and dissertations, appended to M'Culloch's edition of the *Wealth of Nations*, is entitled, 'Of the Definition of Labour.' By passing with the apparent authority of Adam Smith from labouring men to labouring cattle, and without that authority from labouring cattle to labouring machines and natural agents, labour becomes at last 'any action that tends to bring about any desirable result,' and thus would include, *inter alia*, the fermentation of wine in the cask. Similar difficulties arise when labour is regarded, — to make use of terms which suggest of themselves the divergence from common thought, — not from the objective, but from the subjective, point of view. Adam Smith himself has declared that the greater part of people understand better what is meant by a quantity of a particular commodity than by a quantity of labour, and that the one is a plain, palpable object, and the other an abstract notion, not altogether so natural and obvious. And the notion appears altogether the reverse of natural and obvious when it is briefly described as *disutility*, or *negative utility*.

¹ Value in use and value in exchange.

² Real and nominal price.

³ "By the price of a thing we shall henceforth understand its value in money; by the value, or exchange value of a thing, its general power of purchasing; the command which its possession gives over purchasable commodities in general." — MILL.

Sacrifice, the last word in Mill's definition, — wealth being held only to include those things which cannot be obtained in sufficient abundance without labour or sacrifice, — naturally suggests the abstinence of the capitalist. This well-chosen expression of Mr. Senior, as Mill phrases it, has given rise to a keen controversy, which is still raging.

Thus, on analysis, the traditional economic definition of wealth is discovered to contain elements which apparently require more explanation than the concrete reality, just as man himself, who in ordinary life is regarded as a common sort of body with a common sort of soul, without any shadow of mystery, is proved, on examination, to be a creature intricate and wonderful enough to furnish materials for many sciences and religions.

It will, however, be found, that in certain parts of the subject this familiar conception of wealth is not only adequate, but is better adapted for the argument than an amalgamation of technical notions, since much of political economy requires rather practical wisdom than scientific research. From the modern standpoint there is not a single accurate scientific definition in the whole of Adam Smith's work, yet, both for the science of political economy and for the economic policy of nations, Adam Smith has done far more than any of his successors. It would be a grave misfortune if, in striving after technical correctness and scientific analysis, the concrete realities of earlier writers were neglected. At the same time it must be acknowledged that, for other purposes, the most rigorous scientific statement is requisite; in some cases, indeed, whether we like it or not, our ideas and methods must be essentially mathematical, although, it may be, only in the most general way, and without requiring any symbolical statement. And, as might be expected, in the different departments of political economy, different stress is laid upon the different constituent elements of wealth. In Consumption, for example, utility, in Production, labour,

in Distribution, appropriation, and in Exchange, value, are, in turn, of fundamental importance, although in most cases they also overlap, because the division into departments is logical and hypothetical rather than actual and positive.

§ 4. *Political Economy as a Science.* Some preliminary discussion of the nature of political economy as a science seems requisite on two grounds; in the first place to make clear the meaning of the much-abused phrase, "laws of political economy," and, secondly, to point out what methods are appropriate for the discovery of these laws. For the purpose in hand it is convenient to follow Mill and divide the sciences into two great groups, those, namely, which have to do primarily with laws of mind, the moral or mental sciences in the widest sense of the terms, and those which are primarily concerned with matter and only indirectly with mental phenomena, and which may, for contradistinction, be called the physical, or natural, sciences. This division is not intended to be sharp and exclusive, nor is the object so much to make a classification as to bring out the salient characteristics of political economy by comparing and contrasting it with other sciences. The real distinction between the two groups is found mainly in the adjustment of emphasis. Thus psychology itself may be studied in some respects from the physiological side. Again, natural philosophy may treat of sounds and notes as vibrations of a certain kind, and yet may be of service to the science of music which is concerned with the mental phenomena which correspond to these physical manifestations. Until recently there was no question that political economy should be placed in the moral or mental group, and the reasoning of Mill and Cairnes was accepted as obvious and conclusive. On this view political economy deals with men as possessing certain mental and moral characteristics; its fundamental notions are desire, effort, satisfaction — not matter, motion, energy.

In certain parts of the subject, however, it is allowed that physical facts are of great importance. Thus, in the department of production, certain general and even special characteristics of the forces and gifts of nature demand investigation, as, for example, in considering the relation of population to the food supply, the conditions favourable, or the reverse, to *petite culture*, the physical disadvantages of production on a large scale in manufactures, and the influence of climate upon race and accumulation. In the other departments, also, physical facts are often of importance, as in some of the arguments in support of protection, and again in the attempt to discover in sun-spots, or other natural phenomena, the basis of inflations and depressions of trade. It would be easy to multiply examples, but in all it would be found that the end in view is not the mere statement of these physical facts, but their connexion with men as mental and moral agents. Wealth itself cannot be regarded simply as consisting of things, but must always be considered with an expressed, or implied, reference to human wants. The practical men in the first half of this century, who narrowed the teaching of Adam Smith to a few simple dogmas, in many cases overlooked the human element in wealth.

Recently attempts have been made, or rather announced as about to be made, to connect political economy with the general theory of evolution, and more especially with biology. The ideas at the root of evolution are, no doubt, capable of application to economic problems, especially to those which have to do with the progress of society; but apart from this regulative or suggestive function, evolution is only of service when based upon special evidence.

The rise and decay of the guilds, for example, and of many other economic institutions, may be compared to the growth and degeneration of organisms, and may be described to some extent in similar phraseology. But there is no general theory which can be an adequate, or, indeed, anything but a delusive, substitute for an appeal to facts.

Evolution *a priori* is nothing better than a hasty and easy anticipation of nature. Again, although man is an animal, and as such falls under the sphere of the biological sciences, biology has about as much to do with political economy as with constitutional history. No manipulation of biological ideas and phrases can bring us in sight of economic problems, such as the rate of interest, the incidence of taxation, the level of prices. Nothing has been so fatal to the progress of the sciences generally as the use of inappropriate conceptions. Medicine made very slow advances as a branch of demonology, and astronomy as a branch of æsthetics; and in the mental and moral sciences to attempt to express mind in terms of matter is to go wrong at the beginning.

The moral sciences may again be divided according as they discuss the individual in isolation, or combinations of individuals in societies, though here, also, the division rests mainly upon an adjustment of emphasis. Psychology may be taken as an example of the former, though, in the treatment of the emotions, for instance, it departs in some respects from the individual standpoint, whilst jurisprudence is placed in the social group, though, in some problems, it deals mainly with the individual. It is easy to conceive of a science of wealth which would take the individual as central and discuss the mental and moral characteristics involved in the acquisition and expenditure of wealth; but the term political implies that in political economy man is considered as a member of a state, or, at least, of an industrial society. Sometimes, no doubt, it is convenient to isolate the individual for certain purposes of abstract theory; but such isolation is properly only preliminary and hypothetical. The economic man on his desert island may occasionally be of service in this way, but it is generally dangerous to construct any social science *a priori* from the individual.¹

¹ Compare the criticism of recent developments of the theory of utility. *Infra*, Bk. I., Ch. III.

At this point the question naturally arises: Can we treat of one department of social science apart from the rest, and can political economy exist apart from general sociology? It is, no doubt, true that all the forces of society are in a constant state of interaction; the system of government, the standard of morality, the condition of the fine arts, religion and superstition, all operate on economic facts. Economic history furnishes endless examples of the injurious effects of bad government, low morality and intolerant or debased religion. But every one knows that a debased religion is one thing and a debased currency another, or more generally, that the domain of economic history can be separated from the history of the constitution, of law, of morals, and of the church, though all have an economic side. The simple truth is, that whilst there are a number of social sciences which have attained a high degree of development, both from the historical and the theoretical point of view, general sociology is best described as an aspiration.

The economist regards man as a being who produces, distributes, exchanges, and consumes wealth, and considers him as a member of a society, one of the objects of which is to deal with wealth. This is not the only object of political union, but it is sufficiently important to be studied separately. No economist imagines that wealth can be treated quite independently of other social phenomena; but he is in no worse position than any other man of science; in the actual world we get no complete isolation. "No science," according to Bastiat, who was, it is true, more celebrated for observing harmonies than differences, "has natural and unalterable boundaries. In the domain of ideas, as in the domain of facts, all things are bound up and linked together; truths run into one another, and there is no science which in order to be complete might not be made to include all. It has been said with reason that to an infinite intelligence there is but one single verity; it is our weakness which obliges us to study separately a cer-

tain order of phenomena." Accordingly the economist fixes his attention on wealth, and only considers other social factors as far as they appreciably affect wealth; as in every other science minor causes are neglected.

Just as according to the traditional English view political economy is not to be subsumed under sociology, neither is it to be conjoined with ethics. In my opinion one of the greatest merits of the old English school is the sharp distinction drawn between economic laws and moral ideals. Political economy on this view classifies and explains certain social facts, and discovers their laws and relations, just as the natural sciences deal with phenomena of a different order. Thus, starting with private property and freedom of competition as existing facts, we may discover certain laws of rent, profits, and wages; but whether this distribution of the nation's wealth is morally just or unjust is relegated, together with the question wherein justice consists, to ethics. It is, no doubt, part of the business of political economy to estimate the influence and the powers of governments in altering this hypothetical distribution; it is within its sphere to point out the objects governments have had in view in the past, or still have in the present, in making laws and regulations affecting wealth; it may estimate how far these objects have been attained and the difficulties in the way of their attainment; and similarly it may deal with the functions of various industrial bodies, such as agricultural communities, trade-unions, and parochial and municipal authorities. But all the time we are in the domain of facts; we are discussing how wealth is affected by various forms of organisation, restraining and modifying self-interest and competition.

We may even go further without losing sight of the positive character of the science. We may pass from the present to the future, and consider the consequences and effects of various changes proposed as regards wealth; we may examine the real meaning of these proposals, and the adaptability of the means suggested to the ends desired.

But we are still dealing with facts in so far as we consider these opinions and proposals as possible reforms. Opinion, we must remember, especially in matters of distribution, has real force; the opinion of the multitude on a mathematical problem is a very different thing from its opinion on a question of practical politics. There is room in political economy for a chapter on Utopias, although it would be well to follow the example of Adam Smith, and give more attention to the actual than to the ideal.¹ It may also be observed that these discussions on Socialism and similar topics have a didactic value, in that they make clear by way of contrast the meaning of present institutions and methods. Those who have no idea of Socialism have generally an inadequate notion of private property.

Beyond this stage, on the traditional English lines, the province of political economy, considered as a science, does not extend. At the same time, seeing that most writers on the subject are familiar with ethical systems in general, and adherents of one in particular, it is natural that as opportunity arises, attention should be directed to the moral side of economic facts and institutions. In the same way, a judge, whilst laying down the positive law applicable to any case, may express his own moral approval or disapprobation, and a writer on natural science may easily be led into reflections on natural theology.

But experience shows that it is desirable to interpret the laws of nature and the laws of the statute-book with a careful avoidance of moral or theological bias; and economic laws demand an equally rigorous impartiality of judgment. Whether we refer to the interpretation of the historical past or the actual present, we easily find examples of the danger of being influenced by ethical or religious notions in the examination of economic phenomena.

¹ Compare Adam Smith's treatment of the Mercantilists and Physiocrats in Bk. IV., the space allotted being in the proportion of thirty to one. See, however, Oncken's criticism: *Œuvres de Quesnay*, Introduction.

Adam Smith's ideas on natural theology, in spite of his extraordinary command over facts, led him to exaggerate the benefits, and to underrate the disadvantages, of the system of natural liberty, and even vitiated, in some instances, his historical judgment. In the case of his immediate followers, this bias in favour of individual freedom made people callous to the industrial anarchy which preceded the factory legislation and the development of trade-unions. They were persuaded that if things were left to themselves, the best possible solution would be attained. They did not know that their opinion was, to a great extent, a superstition based upon an optimistic system of natural theology. But a superstition, the origin of which is lost, is generally doomed to decay, and at present the ideal of maximum freedom has fallen into disfavour. We seem, indeed, to be rapidly adopting the presumption that individuals, if left to themselves, are capable of everything bad, and that government management is capable of everything good. The suspicion is gaining ground that competition is an evil which must be met at every point by organisation.

The principle of the 'greatest happiness of the greatest number' having lost touch with the 'invisible hand,'¹ by which, on Adam Smith's view, the individual was 'led to promote an end which was no part of his intention,' now seeks support in the visible hand of popular government, and literally the *vox populi* is being substituted for the *vox dei*.

On a question of this kind there is no final appeal either to principles or authority; every writer must choose for himself the quantity and quality of the moral reflections which he deems most suitable for illustration, ornament, or instruction. It is sufficient to say that for the purposes of this treatise political economy is regarded as a positive science, the object of which is to unfold principles, to discover uniformities, and to trace causal connexions, and not

¹ P. 199, M'Culloch's edition.

to lay down precepts, set up ideals, or pronounce moral judgments. On this view the connexion of political economy with practice is extremely variable according to the nature of the subject. In other words the laws of political economy may be divided for practical purposes into several distinct species. There are some, such as the law of diminishing return to land in its simplest form, which partake, as Mill said, of the character of physical laws. No amount of ardour and self-sacrifice can enable a limited area of land, with a certain system of agriculture, to support more than a certain number of people; and we still find in the world some examples of famines, and many of agrarian pauperism. There are other economic laws which, to a great extent, depend upon human institution, and may be counteracted, or modified, by human agency. Such, in the main, are the laws of the distribution of wealth, although, as will appear subsequently, even in this case the arbitrary and optional element as a matter of fact is not so preponderant as might at first sight appear. There are other laws which are properly hypothetical; that is to say, given certain conditions certain results follow. Thus to assert that successive issues of inconvertible paper, other things remaining the same, will lead to an inflation of prices, is as true as to say that successive applications of heat will expand metals. In either case counteracting causes may intervene, but practically that amounts to a change in the conditions. There are also economic laws which are simply generalisations founded on observed facts, and are merely explanations of past or present conditions. In these cases the practical application will depend upon the usual requirements necessary for the extension in place or time of empirical laws.¹ Take, for example, the generalisations as regards the results of various systems of land tenure.

It only remains to add, that to speak vaguely of any proposal, as contrary to the laws of political economy, is

¹ Cf. Mill's *Logic*, Bk. III., Ch. XVI.

necessarily ambiguous, and the condemnation has no value until the ambiguity has been removed. Laws of political economy, in the popular sense of the term, vary in force from the laws of nature to the opinions of dead men.

§ 5. *The Methods of Political Economy.* The methods of political economy are closely connected with the view taken of the subject-matter, and as the result of a prolonged controversy between rival schools, it may now happily be taken for granted that we ought to adopt different methods according to the particular problem, or department, under discussion. Speaking broadly these methods may be divided into two great groups, different names being employed according to the stress laid on certain special characteristics. The most general opposition is implied in the terms deductive and inductive. In the deductive method we start with certain general principles either axiomatic, or derived from other sciences; we deduce, or draw out, particular laws; and, in order not to be left in the land of hypotheses, we add the process of verification with the view to the discovery of any disturbing causes. The great advantage of this method is found in the complexity of social phenomena, and in the difficulty of making experiments. A good example is furnished by the theory of money and prices. It would be manifestly hopeless to begin with a collection of tables of prices—the greater the accumulation the greater would be the confusion. Before we can arrange the facts we must have certain guiding principles. We may assume, for example, that given certain conditions, and certain modes of dealing with money and goods, the range of prices will vary with the quantity of standard money. With this as a provisional hypothesis, we may refer to the broad facts of monetary history, and thus be led to discover a number of supplementary, counteracting, or disturbing causes. It may happen, indeed, that some of these causes are of greater importance than the original principle; but the fact still remains that a working hypothesis of some kind is re-

quired. The great danger of the deductive method lies in the natural aversion to the labour of verification. When a principle appears to be obviously true the exponent is apt to consider that one illustration is sufficient, the illustration itself often being hypothetical. Another danger is that sufficient attention may not be given to the selection of principles, and that especially with the aid of mathematics these principles may be elaborated beyond the possibility of practical application. At the same time, however, it must be remembered that in all the deductive sciences advances have been often made without reference to narrow views of utility, and yet in the end these advances have been of great practical value. Political economy is certainly indebted to some of the labours of mathematicians which for a time were neglected as curious and visionary.¹

In the inductive method we are supposed to start with particular facts and ascend to general principles. Here the danger is that the facts are accumulated without any rational system of classification, and that we never get beyond a collection of materials. Hitherto, however, it must be confessed that in political economy this danger has not received any conspicuous illustration, and in most cases when induction has been attempted the result has been of theoretical, as well as of practical, importance. This is especially true of those forms of induction usually styled historical and comparative. Even the *Annals of Commerce* of Anderson and Macpherson, although the method of arrangement is merely chronological, have borne good fruit, and the works of Thorold Rogers, although his guiding principles were too often taken from an extreme form of current politics, are of the highest value. The attention which has been recently bestowed upon economic history, as will be shown by numerous examples in the course of this work, has led to important modifications

¹ See the interesting and pathetic preface to Cournot's *Revue Sociale*.

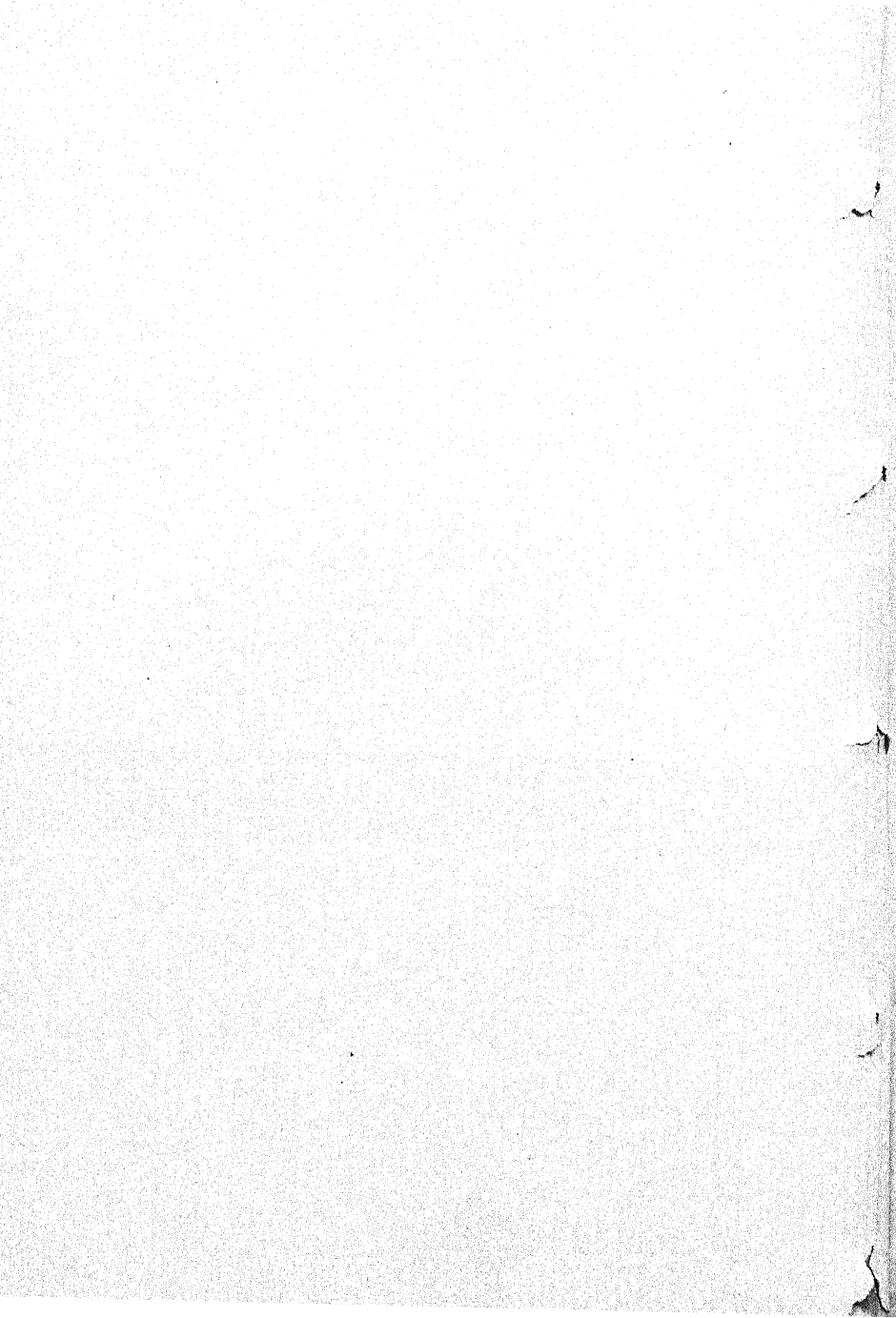
of previously accepted theories. It must be observed, however, that the field of economic history is far too wide to be included in a survey of principles. An attempt to introduce at every point the corresponding history, even of one country, could only lead to confusion.

In conclusion¹ the reader may be warned that in the study of political economy he will meet with difficulties of various kinds. The analysis of complex conceptions, the definition of terms, and the statement of abstract principles, will demand at one time the kind of intellectual strain that is required in mathematics or analytical jurisprudence, whilst at another time it will be necessary to consider and balance a reasoned classification of a number of details drawn from history and statistics.

¹ Compare for more elaborate treatment of the whole subject of this chapter, *Scope and Method of Political Economy*, by Dr. Keynes.

BOOK I.

PRODUCTION.



CHAPTER I.

UTILITY.

§ 1. *Meaning of Utility.* In the introductory chapter it was pointed out that even material wealth cannot be regarded simply as consisting of 'things,' but must always be considered with an expressed or implied reference to human wants. A term is needed to call attention to this ever-present human element in economic phenomena, and the practice of economists has fixed upon utility as best conveying the meaning. Utility in this sense indicates "the capacity to satisfy a desire or serve a purpose." It is thus the widest conception in political economy, and as it will be constantly referred to, requires careful investigation at the outset.

It will be observed that the definition as given is much more extensive than the popular signification would suggest.

In common thought, useful is often opposed to ornamental, and thus utility, the corresponding substantive, might be supposed to be only applied to things which are instrumental in rendering the more solid and important services. But in political economy a thing, which in ordinary language might be spoken of as useless in itself,¹ possesses utility if it serves any purpose whatever.

The definition of utility here adopted requires also to be distinguished from that which is the basis of the utilitarian system of ethics. It is true that many economists under the influence of this system have assumed that the satis-

¹ Cf. Mill, p. 5.

faction afforded by utility will always consist in increasing pleasure or alleviating pain. But in the view taken in the present work of the relation of political economy to ethics this assumption is unwarranted and misleading. It is worth recalling that Bentham himself admitted that utility, in this narrow sense, was an unfortunately chosen word,¹ and it certainly ought not to bear this restricted and peculiar meaning in economic reasoning; for it cannot be said, without begging the answer to a most difficult and disputed psychological question, that even in the production and consumption of wealth men are actuated simply by considerations of pleasure and pain. What is called, for example, the effective desire of accumulation consists of a group of motives which we have no right to assume are purely hedonistic, just as we ought not to suppose that people are honest merely because it is the best policy. Still less in the distribution of wealth amongst the different classes and members of a society are we justified in taking for granted a particular system of moral philosophy. The institution of private property may or may not afford the greatest happiness to the greatest number, but it is certainly not necessary in political economy to treat private property only from that point of view. Mill, for example, in comparing the relative merits of Socialism and Individualism says that "if a conjecture may be hazarded, the decision will probably depend mainly on one consideration; viz., which of the two systems is consistent with the greatest amount of human liberty and spontaneity."² Whether maximum liberty would necessarily lead to maximum happiness, it is beyond the domain of political economy to determine; from the economic standpoint utility must be regarded as morally colourless.

¹ "Utility was an unfortunately chosen word. The idea it gives is a vague one. Dumont insists on retaining the word. He is bigoted, old, and indisposed to adopt what is new, even though it should be better." — Bentham's *Conversations*, Works, Vol. X., p. 582.

² *Principles*, Bk. II., Ch. I., § 3.

The danger involved in restricting the meaning of utility to pleasure and pain is well illustrated by the following passage from Jevons, who more than any one professes to make utility the basis of economics. "My present purpose," he writes at the conclusion of his chapter on the relation of political economy to moral philosophy, "is accomplished in pointing out this hierarchy of feeling and assigning a proper place to the pleasures and pains with which economy deals. It is the lowest rank of feelings which we here treat. The calculus of utility aims at supplying the ordinary wants of man at the least cost of labour."¹

On this view not only is utility reduced to a balance of pleasure and pain, but economic utility is confined to the lowest rank.

A little reflection, however, will show that this division into higher and lower is purely arbitrary, and receives no sanction from the writings of the most eminent economists. Adam Smith, for example, discussed the economy of supplying the wants of a nation in defence, justice, education, and religion.² Mill again observes: "After the means of subsistence are assured, the next in strength of the personal wants of human beings is liberty; and unlike the physical wants which as civilisation advances become more moderate and more amenable to control, it increases instead of diminishing in intensity as the intelligence and the moral faculties are more developed."

The popular hostility to political economy and the prevailing notion, as exemplified in the writings of Mr. Ruskin, that it is essentially immoral are largely due to the assumption that economists only deal with motives of the lowest rank. Take, for example, Mr. Ruskin's description of the teaching of the modern political economist: "As no laws but those of the devil are practicable in the world,

¹ Similarly Professor Marshall speaks of political economy as dealing with the 'ordinary business of life.'

² *Wealth of Nations*, Bk. V.

so no impulses but those of the brute (says the modern political economist) are applicable in the world. Faith, generosity, honesty, zeal, and self-sacrifice are poetical phrases. None of these things can, in reality, be counted upon; there is no truth in man which can be used as a moving or productive power. All motive force in him is essentially brutish, covetous, or contentious. His power is only power of prey: otherwise than as the spider he cannot design; otherwise than as the tiger he cannot feed."¹ It is needless to say that this opinion is not supported by quotations from any economist of repute.

§ 2. *Economic Utility.* If, however, the term utility is to be used in the wide sense indicated by the definition just given, it is plain that political economy can only deal either with certain kinds of utilities, or with utility in general in certain aspects. Now economic utilities, it is generally admitted, are distinguished by three characteristics: they are the result of labour, they are appropriated, and they are exchangeable. Labour, property, value, are in succession of fundamental importance in production, distribution, and exchange respectively, and will require careful analysis subsequently. In the meantime, however, a sufficient account must be given to throw light on the nature of economic utility. Labour, then, may be simply muscular and almost automatic, or it may involve the highest strain on the intellectual and moral faculties; the distinction turns not on the quality of the labour (whether higher or lower), but upon its association in general with the other two characteristics noted. Thus many forms of sport require severe muscular exertion and considerable technical skill; but labour of this kind is not economic (except indirectly), because the results are in general capable neither of appropriation nor of exchange.

¹ *Selections from the Writings of John Ruskin*, p. 372. Contrast with this passage the treatment of Economic Motives by Dr. Keynes (*Scope and Method of Political Economy*). See, also, Professor Marshall's *Principles* (2d edition), p. 147.

Again, to go to the other extreme, many strivings after self-culture and religious and moral ideals involve labour of the highest kind; but in this case also political economy has in general little to say except indirectly. In other words, there are various personal qualities of the highest utility to the possessor which lie beyond the domain of political economy.

On the other hand, there are certain gifts of nature (notably land) which, although not the result of labour, form part of the economic foundations of society. In this case, however, there is scope for appropriation and exchange, and in general these natural sources require labour for their exploitation. If the gifts of nature, either owing to their abundance or their character, are exempt from appropriation and cannot be exchanged, they also claim little attention from the economist except indirectly. They are not, however, altogether excluded, because, as, for example, in the case of climatic influences, they are often closely associated with economic utilities proper.

Of appropriation, as characteristic of economic utilities, it is not necessary at this stage to say more than is implied in common thought. It may, however, be well to observe that the conception is not limited to the private property of individuals. In all communities many important economic utilities, or forms of wealth, have been appropriated by the state or by various local bodies. Again, from the economic standpoint, it is often convenient to regard skill and other qualities of labour, even when labour is free, as capable of appropriation.¹

The third characteristic of economic utilities, namely, value, is encrusted with difficulties. Most English economists, since Adam Smith, have abandoned the expressions "value in use" and "intrinsic value" as meaning on

¹ Just as rent may be regarded as the sale of the use of land for a time, the payment being by instalments, —so of labour and wages. Cf. Maine's *Village Communities*, pp. 189, 190.

analysis no more than utility, and they have accordingly confined the term "value" to "exchange value." Now it is plain that exchange necessarily involves two terms at least; that is to say, we can only express the exchange value of one thing in relation to one or more other things.

In early, or rather hypothetical, stages of society, when barter is assumed to be the rule, we may suppose that a person anxious to sell an ox, or an ass, offers it for so many sheep or women, or other forms of primitive wealth; that is to say, he offers a series of alternatives in the matter of payment. But in modern, and we may say in historical,¹ societies a standard of comparison has been adopted; and when we speak simply of the exchange value of a thing, the correlative term is "money."² Thus value becomes price. It is with utilities that have a price that political economy is mainly concerned, and it is principally owing to the possibility of accurate measurement thereby introduced, that the advance of political economy as an exact science — that is to say, as distinct from a collection of empirical truths — is to be attributed. "Every science," says Clerk Maxwell, "has some instrument of precision which may be taken as the material type of that science which it has advanced, by enabling observers to express their results as measured quantities. In astronomy we have the divided circle; in chemistry, the balance; in heat, the thermometer; while the whole system of civilised life may be fitly symbolised by a foot-rule, a set of weights, and a clock." To these symbols the economist can justly claim that a piece of standard money should be added.

Money is not only of practical use in the measurement and exchange of wealth, but is of fundamental importance in economic theory. At a later stage the theory of money

¹ For the very early and general adoption of some monetary standard, see Professor Ridgeway's learned and interesting work, *Origin of Currency and Weight Standards*.

² "Money" is not necessarily gold or silver, or even metallic. For the present, we may say with Professor Walker, "Money is that money does." — *Money*, p. 405.

and prices will require special and detailed examination, but for the present it will be assumed that, under any given conditions, the general purchasing power of money is constant. In other words, the general level of prices will be considered stable relatively to any change in the particular price of some particular commodity or service. This assumption is perfectly legitimate, when we wish to investigate the value of one thing compared with "things in general," because, if the relative values of all other things (including money) are assumed to remain unchanged, we may say that general prices are unchanged. Again, the effect of a movement in the price of one commodity upon the general average of an indefinite number may be neglected. In certain inquiries, however, as for example, in estimating the accumulation of wealth over a considerable period, it may be absolutely necessary to make due allowance for any change in the value of money itself as shown in general movements of prices.

To resume: the utilities with which political economy deals have in general three distinctive marks—labour, appropriation, and exchange-value. Thus, on the one side, we exclude the so-called inner personal qualities, the enjoyment of which cannot be separated from the individual, and, on the other, the so-called outer free utilities which owing to their abundance or nature cannot or need not be economised.¹

It is plain that economic utilities (even when thus restricted), corresponding as they do to an infinite variety of human wants, may for different purposes be classified in a great many different ways. As one of the best known examples, we may take the division adopted by Mill,² viz.:—1, Utilities fixed and embodied in outward objects; 2, those fixed and embodied in human beings; 3, those not fixed or embodied in any object, but consisting in a

¹ See Dr. Smart's *Introduction to the Theory of Value*, p. 17, for an explanation of this use of "economise."

² *Principles*, Bk. I., Ch. III., § 2.

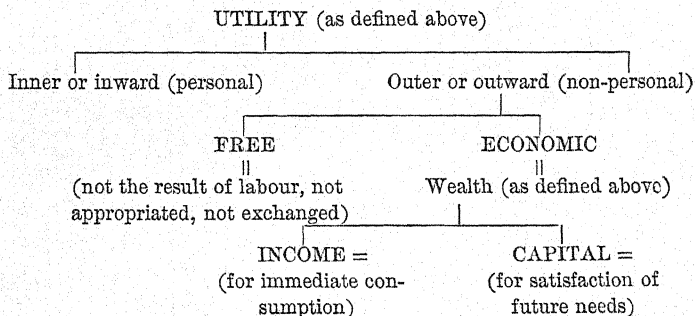
mere service rendered. This classification, however, is open to the criticism that it is based upon two different principles. The distinction between the first two classes rests upon the legal and natural division between things and persons; but in the third class the differential characteristic is found in the fact that 'the services only exist whilst being performed, and the pleasures while being enjoyed.'

It cannot, however, be too often insisted on that utility is a relative term, and has no meaning without reference expressed or implied to the satisfaction of human wants. A natural outward object has no utility in itself; like human beings, it can only render services or give pleasures which perish in the act. If, then, it is thought desirable to distinguish between the durable qualities of persons, and the fleeting services which from time to time they render, we ought also to distinguish between the qualities of things and the pleasures which they similarly furnish from time to time. In some parts of the subject, and especially in reference to Capital, it is necessary to call attention to the fact that certain qualities of persons and things are comparatively permanent, and that their efficacy is not exhausted by a single use. It is also desirable, in discussing certain problems, to distinguish between the utility actually derived from a thing, as, for example, mountain scenery from which the public are excluded, and the potential utility that might be derived. But in general it is not necessary to emphasise the logical distinction between the capacity to render a service and the actuality of performance, whether in persons or things.¹ On the other hand, the distinction between the utilities afforded by things and those afforded by persons is of fundamental importance. In popular usage, the term wealth is generally confined to the class of material things. There is, however, the authority of Adam Smith

¹ When the question is discussed whether skill is wealth, it is assumed that the skill actually is or may be used, and similarly of commodities.

for including under the fixed capital of a country (and therefore under its wealth) the acquired and useful abilities of its inhabitants. Economic utilities, then, may be divided into personal (or immaterial) and material; and for practical purposes it is often convenient to substitute for the technical expression 'economic utilities,' the more familiar term wealth, and to speak of wealth as being either material or immaterial.¹

¹ For many years I was in the habit of using the classification given below, adapted with some modification from that of A. Held's *Grundriss*.



CHAPTER II.

PRODUCTION.

§ 1. *Definition of Production.* The controversy as to the meaning of the terms productive and unproductive is now only of interest as showing the difficulty there is in clearing fundamental conceptions from the popular growths with which they are entwined. As soon as it became clear that the terms production and productive were elliptical expressions involving the idea of a something produced, and that the correlative term was wealth, the question became identical with the proper definition of wealth. To avoid any ambiguity at the outset for the term wealth we may substitute as explained in the last chapter 'economic utilities,' but after this preliminary explanation, there will be little danger in speaking of immaterial (or personal) and material wealth as the objects of production.

There is nothing to be gained by confining the term productive to the production of material wealth. Man cannot produce matter in the sense of creating it; he can only adapt it to his wants or desires; that is to say, he can endow it with utility of some kind; and in the process of adaptation he requires the constant co-operation of natural forces. In every form of production nature labours with man; this is equally true of immaterial as of material wealth. The education of a child requires not only labour on the part of the instructor, but time must be allowed for natural growth. We may force education as we force plants, but only within certain limits.

The objects of education are, it is true, only partly economic ; but we can make a logical distinction between those human qualities, such as skill which will command a price and those of a purely moral or religious character, just as in many material objects we can distinguish between their economic and their artistic qualities, *e.g.*, in ships, houses, bridges.¹

In some forms of immaterial wealth, the utility must be regarded as embodied not in one but in a number of individuals — in a combination or organisation. A good example, though in some respects liable to misrepresentation, is furnished by the credit institutions of a country. The “money” of the money market of the United Kingdom, less than five per cent of which is actually held in coin, is an economic utility of the first magnitude embracing some £600,000,000. Broadly speaking this large sum has been accumulated through certain economies gradually developed in the organisation of industry. The result has only been obtained through labour of a very high quality producing certain effects on the characters and habits of men, combined with great improvements in the means of communication. The latter, it is plain, depend not only on man’s ideas and morality, but upon the gifts and forces of nature.

§ 2. *The Production of Material Wealth.* The nature of material production as the more simple may be first considered. In general there are three requisites: Land and Natural Agents, Labour, and Capital. It is usual to point out, that, in the rudimentary stages of society, land and natural agents must have been of dominant importance, that labour must have consisted mainly in the appropriation of the natural fruits of the earth, and that capital can hardly be said to have existed. On analysis,

¹ “ Another of the strange and evil tendencies of the present day is to the decoration of the railroad station. . . . Will a single traveller be willing to pay an increased fare on the South Western because the columns of the terminus are covered with patterns from Nineveh? ” — RUSKIN.

however, this account of the origins of economic production seems to amount to no more than the assumption that men were at one time a little lower than bees, and a little higher than cattle in making provision for their wants. But nothing is more delusive than to construct *a priori* primitive societies by making abstraction of certain obvious elements of our present civilisation. Political economy has certainly little to gain from the observation of hypothetical societies in which capital is supposed to be unknown or of no importance.

The evidences of prehistoric times, as well as the most rudimentary forms of present day barbarism, show that primitive man sought to aid his labour by tools, and to guard against his future wants by stores. The origin of many of the most useful arts is lost in antiquity. At a very remote period, as the relics of the tombs show, men could work in stone, and found leisure to indulge in making ornaments. Long before the invention of writing made history possible, certain races were far advanced in agriculture, in transport by land and water, in spinning and weaving, and in building. That is to say, even in prehistoric times, capital in its most narrow and obvious sense of material wealth devoted to production was an essential element in production. Nor was it fundamental merely in the sense that isolated individuals found instruments and stores of service; the capital that an individual can make, or save, unaided by his fellows is of small importance.¹ It is only because the little increments of improvement are communicated and handed down that progress in the industrial arts is possible. This again involves a certain degree of security and association; and the kind of association is found to depend to a great extent on the kind of material capital, and on the state of industrial knowledge. A good illustration of this position is to be found in the development of agriculture

¹ "Mankind can never have lived as a mere struggling crowd each for himself." — Tylor's *Anthropology*, p. 402.

as shown in an admirable manner by Mr. Seeböhm, in his work on the English Village Community. As a particular example we may take the description of the co-aration or common ploughing of the Welsh.¹ The team for the great plough, as in England and Scotland, was of eight oxen. Those who joined in this primitive co-operative ploughing were obliged to bring a proper contribution of capital whether oxen or irons. The land ploughed was divided into *erws* (something less than a modern acre), and the produce of the partnership was divided according to immemorial custom by settled rules. "The first erw ploughed was to go to the ploughman, the second to the irons, the third to the outside sod ox, the fourth to the outside sward ox, the fifth to the driver, the sixth, seventh, eighth, ninth, tenth, and eleventh to the other six oxen in order of worth, and lastly, the twelfth was the plough erw for plough-bote, *i.e.*, for the maintenance of the wood-work of the plough." An occasion will arise subsequently² for further reference to the remarkable consequences extending down to the present century of the adoption in prehistoric times of peculiar methods in the application of capital to land. It is sufficient, at present, to observe that for many ages agricultural systems moulded the conditions of life of the great mass of the people at least as rigorously as the modern factory system shapes the present conditions of life of large classes of operatives. In the open-field system there was a dead level of uniformity in the methods of cultivation. "The facts recorded with pen and ink on the venerable pages of the Domesday Book are for the most part still legible, scored deeply on the surface of the soil by the Domesday plough. . . . As we gaze on these actual acres, roods, and furlongs, we notice that they are seldom straight, but lie in great sweeping curves, shaped usually like a reversed capital J or capital S, the long, narrow fields of the present farms thus perpetuating the graceful curves of the acres — curves

¹ *Vill. Comm.*, p. 121.

² Bk. II., Ch. VI.

which can only be due to the twist of the great eight-ox plough as the leading oxen were pulled round, in preparation for the turn as they approached the end of the furlong, by the *villein* at the near side of the leading ox. Thus the acre strips, which were originally straight, were bent round in the course of centuries of continuous ploughing, the curvature being increased every year by an inch or two of further deviation, till at length the extremities of the furlong became shifted several feet from their original position.”¹ It is no exaggeration to say that this system has left an impress upon the land itself, which is almost geological in character. We can see its traces still in the terraced slopes of hills, in the peculiar shapes of our present fields and closes, and in the direction of our country lanes, that ‘meander hither and thither, taking curious rectangular turns, as if round the squares of a chess-board.’

It would be easy to accumulate evidence in proof of the position that, leaving out of account the hypothetical origin of mankind, and taking the actual progress of civilisation, capital has, from the earliest times, been one of the requisites of material production. It may be said that capital is itself the result of labour and nature, and, therefore, not fundamental; it would, however, be equally true to say that labour is originally the result of nature, and thus to argue that nature alone is a primary requisite.

We find that historically, as shown by the shifting tribal households, capital emerged long before the appropriation of land. Even so late as the Domesday survey in England, it is probable that it was rather the possession of oxen for tillage than of land itself which constituted wealth, and that, accordingly, the system of taxation recorded in Domesday was based on the number of ploughs rather than on the number of acres.² Again, in the thirteenth century, accord-

¹ *Domesday Survivals*, by Canon Isaac Taylor, in *Domesday Studies*. Vol. I., p. 60.

² *Domesday Studies*, Vol. I., p. 52.

ing to Thorold Rogers, on ordinary arable land, stock was three times the value of the land, when adequate stock and farm implements were kept upon the land.¹

It is difficult to get rid of the idea that in the production² of material wealth there is something in the nature of a creative process. It may, then, be advantageous to give an example in which this false suggestion is not present. Such is the case, for instance, with transport, the object of which is to put into things the utility of being in the place where they are wanted. The same idea is sometimes expressed by saying that the act of production is not complete until the commodity is in the hands of the consumer. Accordingly in a modern society the toilers on the sea, the railroad, and the highway; those who by the telegraph, the postal service, and the newspaper assist in the organisation of industry; the wholesale merchant, the retail shop-keeper, and the errand-boy, — all these are as much engaged in the production of material wealth as the labourers on a farm, or the miners in a coal-pit. Just as matter in the wrong place is dirt, so wealth in the wrong place is waste.

§ 3. *Production of Personal or Immaterial Wealth.* It is admitted that economic terms are in general incapable of precise and rigid definition, and that a debatable margin must be left between economic species. Such is the case with material and immaterial, or personal, wealth. One of the earliest, and also one of the most enduring, forms of capital was living capital — meaning thereby not only oxen and sheep but men, women, and children. The animal first tamed by man was man. “But of property,” says Aristotle,³ “the first and most necessary part is that which is best and chiefest; and this is man.” An interesting ex-

¹ *Six Centuries of Work and Wages*, Vol. I., p. 52.

² For an excellent account of the distinction drawn by the Physiocrats between productive and unproductive, see Oncken's *Œuvres de Quesnay*, Introduction.

³ *Economics*, Book I., Ch. V.

ample of the perpetuation of this form of living capital is furnished by the case of the colliers and salters in the south of Scotland in the reign of George III. "The persons engaged in these occupations were at this time bondsmen; and in case they left the ground or the farm to which they belonged, and as pertaining to which their services were bought or sold, they were liable to be brought back by a summary process. The existence of this species of slavery being thought irreconcilable with the spirit of liberty, colliers and salters were declared free and put upon the same footing with other servants by the Act 15, George III. Ch. 28 (1775). They were so far from desiring, or prizing, the blessing conferred on them, that they esteemed the interest taken in their freedom to be a mere desire on the part of the proprietors to get rid of what they called *head and harigald* money payable to them when a female of their number by bearing a child made an addition to the live stock of their master's property."¹ They were not effectually emancipated till 1799.²

The substitution of freedom for slavery, and generally of contract for status, does not from the point of view of production alter the nature of economic conceptions. Even as regards material wealth, only part, and the least important part, of productive processes can be understood, if, at the same time, adequate attention is not paid to the production of immaterial, or personal, wealth. Under this heading are included those utilities produced in human beings and classed as immaterial, because a mental element is always present and often predominant. Such are the intellectual and moral qualities which are of economic importance. Thus the technical skill of the artisan, the scientific knowledge of the engineer, the trustworthiness of the banker, and the practical wisdom of the trader must all be considered as the results of economic production. The labour of man, aided by the results of previous labour in

¹ Sir Walter Scott's *Redgauntlet*, Appendix, Note Y.

² See McCulloch's *Adam Smith*, p. 172.

the shape of intellectual and moral capital, works upon the natural qualities of the mind. The productive power of industrial societies depends far more upon the growth of knowledge and the progress of morality than upon the mere accumulation of material capital.¹ We have to consider not only the science that can be inscribed in books but also that which can only be written on the mind; whether or not the true religion can only be transmitted from living man to living man may be a matter of dispute, but there can be no dispute that a large part of our practical knowledge of all kinds must be so transmitted. This has been admirably brought out by List. "The present state of the nations is the result of the accumulation of all discoveries, inventions, improvements, perfections, and exertions of all generations that have lived before us; they form the mental capital of the present human race."²

The truth may also be illustrated from the negative side. It is through the loss not of their material but of their mental capital, in many cases, that great civilisations have been destroyed. In other cases progress has been arrested not through want of material accumulation but by the rigidity of codes and customs. "A state of high civilisation is difficult to keep as well as to gain. This is the teaching of facts and not a speculation. So, also, it is not a probability, but a well-known fact, that the seats of civilisation change. The centres of progress in the world are not always the same. They seem rather to be forever shifting. . . . Taking the whole world into view, it would seem as if there were always nations which are losing, and nations which are gaining, a high civilisation, and as if the seats of culture were forever changing."³ The rigidity of primitive law, says Sir Henry Maine,⁴ has prevented, or arrested, the progress of far the greater part of mankind.

¹ Cf. *infra*, Ch. XI.

² *National System of Political Economy* (English translation), p. 140.

³ *Past in the Present*, by Sir A. Mitchell, p. 214. See the same work for many illustrations of degradation and reversion.

⁴ *Ancient Law*, p. 77.

Personal services have always been and still are of primary economic importance. In ancient times all who could afford it had their wants ministered to by slaves, and their modern representatives expend a large part of their revenue on personal attendants of various kinds. In the census¹ for England and Wales for 1881 the persons returned as indoor domestic servants were no fewer than 1,286,668, and exceeded the next most numerous group, the agricultural labourers, by some 50 per cent. Out of every 22 persons in the population of all ages 1 was an indoor domestic servant. Of females above 5 years of age, 1 in 9 was an indoor servant. In London, the proportion to population was 1 to 15, in Brighton 1 to 11, and in Bath 1 to 9. This account does not include coachmen, grooms, gardeners, etc., but simply indoor servants in private families. If these and similar classes of servants were included the total figure would rise to 1,803,810.²

From the earliest times, also, the production of ideas has been recognised as involving labour, and ideas were appropriated and possessed exchange value. The priests, poets, and judges may have offended against our ideas of religion, art, or duty; but they produced ideas after their kind, and the production of these ideas then, as now, rested partly on an economic basis. The priest had his share of the offering,³ the minstrel his share in the feast, and the judge his reasonable or customary fee. "In the Homeric trial scene described by Homer, as depicted on the shield of Achilles, the dispute, as if expressly intended to bring out the characteristics of primitive society, is not about property, but about the composition for a homicide. One person asserts that he has paid it, the other that he has never received it. The point of detail, however, is the reward

¹ *Census Report for 1881*, p. 33.

² In his Budget speech, 11th April, 1892, Mr. Goschen pointed out that the lawyers earned a larger aggregate income than the cotton manufacturers, and the doctors than the owners of coal mines.

³ See *Leviticus passim*. In modern times (1719) John Law paid the Abbé Tençin £10,000 (in shares) for converting him to the Catholic faith.

designed for the judges. Five talents of gold lie in the middle to be given to him who shall explain the grounds of decision most to the satisfaction of the audience."¹

The economic characteristics and effects of the production of ideas are notably exemplified in the Roman Catholic Church in the mediæval period. The ideas of the expounders of canon law² tinge all the regulations and practices of commerce. The condemnation of usury of money naturally led to the condemnation of 'anything that is lent upon usury,' and thus everything in the nature of speculative dealing came under the ban of the law. Things were supposed to have a just price, almost as a species of natural attribute. The church received, consumed, and administered a large part of the annual revenue of the country. "Over and above the rents of their estates the clergy possessed in the tithes a very large portion of the rents of the other estates of every kingdom in Europe. The revenues arising from both these species of rents were the greater part of them paid in kind; in corn, wine, cattle, poultry, etc. The quantity exceeded greatly what the clergy could themselves consume; and there were neither arts nor manufactures for the produce of which they could exchange the overplus. Both the hospitality and the charity of the ancient clergy, accordingly, are said to have been very great. They not only maintained almost the whole poor of every kingdom, but many knights and gentlemen had frequently no other means of subsistence than of travelling about from monastery to monastery, under pretence of devotion, but in reality to enjoy the hospitality of the clergy."³

But it would be grossly unfair to suppose that the mediæval churchmen simply received vast payments for insincere mummeries and degrading superstitions. Thorold

¹ Maine's *Ancient Law*, p. 377. See also Professor Ridgeway's *Origin of Currency*, etc., p. 8.

² An excellent account of the economic aspects of Canon Law is given in Ashley's *Economic History*, Vol. II., Ch. VI.

³ *Wealth of Nations*, Bk. V., Ch. I.

Rogers, who had a profound knowledge of mediæval life, and certainly no trace of ecclesiastical bias, writes: "England was planted full of monasteries and of capitular bodies. The monks, especially those of the Benedictine order, the most learned and respectable of the older bodies, generally chose some locality of great natural beauty, being often settled in some poorly peopled district. Here they built their magnificent churches and set up their conventual buildings. The towns were full of these ecclesiastical corporations whose history and whose downfall is recorded in the vast work of Dugdale. They had, to be sure, the fatal gift of wealth, but they seem to have used their wealth well. They were founders of schools, authors of chronicles, teachers of agriculture, fairly indulgent landlords, and advocates of generous dealings towards the peasantry. . . . It is, however, very difficult to put oneself in the place of those whose devotion to saints and reverence for relics seems to us so credulous and so degrading, but it would be intolerable to believe that the respect which they professed and imposed on others was a mere hypocritical grimace put on to serve the most sordid and dishonest ends."¹

It may, perhaps, appear paradoxical to speak of the production of religious ideas, and the performance of ecclesiastical ceremonies, as resting upon an economic basis. Those who think so may be referred to a chapter of Adam Smith² which has, unfortunately, not received sufficient attention from his successors. They will there find abundant proof that economic influences have been of the greatest importance in the growth and decay of religious sects and establishments. "Had the Church of Rome," says Adam Smith, "been attacked by no other enemies but the public efforts of human reason it must have endured forever. But that immense and well-built fabric which all the virtue and wisdom of man could never have shaken, much less have over-

¹ *Six Centuries of English Work and Wages*, p. 361.

² Bk. V., Ch. I.

turned, was by the natural course of things, first weakened and afterwards in part destroyed." By the natural course of things, he alludes to those purely economic causes, which were also the chief agents in the break-up of feudalism.¹ With the progress of the arts and the spread of commerce, the clergy, like the barons, discovered that they could spend their whole revenues upon their own persons; and, accordingly, their charity gradually dwindled, and their hospitality became less profuse. In these circumstances the price paid for their spiritual services seemed extravagant. "The inferior ranks of the people no longer looked upon that order, as they had done before, as the comforters of their distress, and the relievers of their indigence. On the contrary, they were provoked and disgusted by the vanity, luxury, and expense of the richer clergy, who appeared to spend upon their own pleasures what had always before been regarded as the patrimony of the poor."

In precisely the same way, Adam Smith shows that the education of youth, whether in schools or universities, to be effective, must be placed on a sound economic basis. "The proper performance of every service seems to require that its pay or recompense should be, as exactly as possible, proportioned to the nature of the service. If any service is very much under-paid, it is very apt to suffer from the meanness and incapacity of the greater part of those that are employed in it. If it is much over-paid, it is apt to suffer perhaps still more by their negligence and idleness." To suppose that those who are engaged in the laborious profession of teaching are, or ought to be, purely under the sway of philanthropic motives is a preposterous and mischievous fiction. A country would soon relapse into barbarism which had to rely solely on the voluntary efforts of amateurs in its schools and universities. Similarly, as regards other professions, the object of which, economically considered, is to produce ideas or render services, we gain

¹ Cf. *infra*, Bk. II., Ch. VII.

far more than we lose, if we follow the example of Adam Smith, and apply the analogies suggested by the production of material wealth. To be qualified to produce ideas or render services, a man must have certain natural gifts: he must labour these gifts as the farmer labours the soil; and he must not only spend material capital for his sustenance during the process of 'waiting,' but he must avail himself of the mental capital of the past, and, in general, pay for its usance. It may then be repeated, with additional force, that in all kinds of production there are three requisites: Nature, Labour, Capital.

Hitherto it has been assumed provisionally that these terms were sufficiently intelligible for the purpose in hand. In the following chapters, however, a deeper analysis will be found necessary; but before this is attempted it seems desirable to give a classification of the various kinds of production, and also to describe in broad outline the characteristics of economic consumption.

§ 4. *Classification of the various Kinds of Production.* The basis of classification must be estimated by the end in view, and my present purpose is to give a more definite meaning to the foregoing analysis of production by enumerating the principal species. Production, then, may be divided into two great divisions, viz., material and immaterial, and each of these may be again subdivided.

I. Under *material production* we include (a) mere occupancy; in other words, the apprehension or appropriation of the gifts of nature. The principle is in many respects analogous to the legal principle of first occupancy which has had such important and unexpected consequences.¹ It is usual to give examples from that early stage of society in which men are assumed to live by gathering fruits and slaying animals. The economic principle, however, is best illustrated by the case of land even in recent times. "The beginning of our national career found us," says Professor Walker of the United States, "in possession of a vast

¹ Cf. Maine's *Ancient Law*, Ch. VIII. Blackstone, Bk. II., Ch. I.

public domain, on which our earlier financiers looked as an important fiscal resource. A wiser policy, however, prevailed, and although that original domain has been multiplied fourfold as the result of war or purchase, it has been almost as rapidly reduced by alienations, all wise and patriotic statesmen agreeing, with almost perfect unanimity, that no fiscal advantage that might accrue from holding the public lands as a source of revenue could be weighed against the interests to be secured by these lands becoming the individual property of actual cultivators." Practically speaking, any one who will undertake to bring land into cultivation can still obtain it gratuitously. An interesting example is furnished from early societies, in the remarkable passage quoted by Mr. Seebohm from one of King Alfred's treatises, in which he describes how a clearing is made in a forest and a new *ham* gradually erected. The first stage in the open-field system of cultivation was the measuring out of the land by rods. The great contest between *champion* and *several* (that is to say between the open fields with common cultivation and enclosures), from the fifteenth century downwards, is essentially an example of the principle in question. The man who made an enclosure put a far greater utility into the land than was represented by the palings or wall which he erected. All such appropriation may generally be regarded as in itself a kind of production constituting sometimes the first and sometimes the final stage in the adaptation of a thing for consumption.¹

(b) Under the next class we may place agriculture and the extractive industries generally, such as mines, fisheries, forestry, and the like. By these we obtain food, and the necessities of life, as well as the raw material for the most extravagant luxury.

(c) The manufacturing class may be thought to require no illustration. It may, however, be useful to mention

¹ This point has been admirably worked out by the Duke of Argyll: *Scotland as it was and as it is*, and *The Unseen Foundations of Society*.

that the term must not be confined to the modern factory system.¹ Flint implements, for instance, were manufactured on a large scale in early times in Scotland from materials imported from a distance.² Under this class in the broad meaning of the manipulation of raw material, we must include also the building of houses, ships, and bridges.

(d) It has already been explained that transport is a species of material production, and thus we easily reach the conclusion, that, in a sense, exchange, like appropriation, may be considered as a kind of production.

The writer to whom in this classification³ I am principally indebted also places under material production the functions performed by money, banks, and credit generally. It seems difficult to escape this inclusion if exchange is admitted, but perhaps the best plan is to place this kind of production in the debatable margin (always allowed for in economic classification) between material and immaterial.

II. Under *immaterial* production we include (a) the creation of ideas which possess economic characteristics, as, for example, in literature, art, and science. The institution of copyrights and patents shows that such ideas are capable of appropriation, and possess exchange value, and it is only by an honourable fiction that they are not supposed to require labour of an irksome kind.

(b) We also include the services rendered which have the necessary economic marks, practically, that is to say, those services for which wages of some kind are paid, but which are not directly embodied in a material product. Such, for example, are the services of domestics and retainers of all kinds; of those employed in assuring defence and security; of teachers, ministers of religion, actors and singers, and of all those engaged in the administration of justice and the government of a nation.

¹ See *History of the Factory System*, Cooke Taylor.

² Wright's *Roman, Celt, Saxon*.

³ Kleinwächter, in Schönberg's *Handbuch*, Vol. I., p. 190.

Finally it remains to be added that for certain purposes it is useful to make a distinction between production (whether material or immaterial) for home use and for sale, a topic which will require some discussion in the treatment of wages in the next book.

APPENDIX TO CHAPTER II.

NOTE 1. Sir Walter Scott, in the introductory epistle to the *Fortunes of Nigel*, has explained, in an amusing manner, the economic side of authorship and other professions.

"*Captain Clutterbuck*. Yet it is generally held base to write from the mere motives of gain.

Author. It would be base to do so exclusively, or even to make it a principal motive for literary exertion. . . . So the lawyer who pleads, the soldier who fights, the physician who prescribes, the clergyman, if such there be, who preaches without any zeal for his profession, or without any sense of its dignity, and merely on account of the fee, pay, or stipend, degrade themselves to the rank of the sordid mechanic. Accordingly, in the case of the two learned faculties at least, their services are considered as unappreciable and are acknowledged, not by any exact estimate of the services rendered, but by a *honorarium* or voluntary acknowledgment. But let a client or patient make the experiment of omitting the little ceremony of the *honorarium*, and mark how the learned gentlemen will look upon his case.

Cant apart, it is the same thing with literary emolument. . . . I might, perhaps, with as much truth as most people, exculpate myself from the charge of being either of a greedy or mercenary disposition; but I am not, therefore, hypocrite enough to disclaim the ordinary motives on account of which the whole world around me is toiling unremittingly to the sacrifice of ease, comfort, health, and life."

The same idea is excellently conveyed in the autobiography of Benvenuto Cellini, who was a rare mixture of the creative artist and the acquisitive man of business.

NOTE 2. *On the comparative value of Material and Immaterial Wealth.*

I have shown in a paper (in the *Economic Journal*, March, 1891), entitled the *Living Capital of the United Kingdom*, that, if we apply precisely the same methods as are applied by Mr. Giffen in his calculations of the material wealth, the value of the people of the country is roughly about five times as great as that of their lands, houses, and material possessions generally. See *infra*, Ch. XI.

CHAPTER III.

CONSUMPTION.¹

§ 1. *Meaning of Consumption — Objective and Subjective.* “Consumption,” says Adam Smith, “is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. This maxim is so perfectly self-evident that it would be absurd to attempt to prove it.”² This passage, like many others by the same writer, has been quoted and applied without any reference to the context, or even to the general argument of the whole work. It has often been assumed that if only things become cheaper nothing more need be taken into account. It is hardly credible, though perfectly true, that the excessive hours of labour of little children, before the factory legislation, were often justified on the ground of the cheapness of the commodity produced.

The nature of the relations between production and consumption is best seen by expressing both in terms of utility. Production, as shown in the last chapter, considered from the *objective* point of view, consists in putting utility into things, or more generally of creating utility; whilst, from the *subjective* point of view, the producer in the process sacrifices so much utility, or in the more familiar language of Adam Smith, he lays down a certain portion of his ease, his liberty, and his happiness.

¹ The general reader may be recommended to pass over the latter part of this chapter. It simply gives the writer's reasons for not accepting certain new doctrines.

² Bk. IV., Ch. IX., conclusion, p. 298, McCulloch's edition.

The consumer, on the other hand, by the act of consumption regarded *objectively* destroys so much utility, whilst *subjectively* he gives himself so much utility in the satisfaction of his wants or desires. Now the vast majority of the people of a country are producers as well as consumers, and it is easy to see that they might gain in utility by diminishing the pains of production as well as by increasing the pleasures of consumption. Theoretically, then, in the manner attempted by Jevons, it seems possible to construct a calculus of utility according to which we may procure the greatest amount of what is desirable at the expense of the least that is undesirable. Before proceeding, however, to examine the foundations of this doctrine, to which in recent times so much attention has been directed, something must be said of the teaching of older writers on the kinds of consumption.

§ 2. *Kinds of Consumption*.¹ In the advance of civilisation the use of material goods according to the increasing variety in the needs of man is divided more and more into special branches. In fact, we have a *division of use*, which both as cause and effect, is intimately connected with division of labour. Take, for example, the case of wool. Not only are there many kinds according to differences in breed and in methods of rearing, but it is well known that a modern wool-stapler will make several assortments from the same fleece.² Opposed to this, we have the principle of the *combination of use*. Many of the anomalies of the laws affecting railways in the United Kingdom may be traced to the fact, that it was at first assumed that traders would provide their own carriages, and manage the loading and unloading themselves; but it soon became apparent that a combination of use was more advantageous. Other

¹ In this section I am much indebted to Roscher's *Political Economy*, Bk. IV.

² "In the same fleece diversity of wool
Grows intermingled and excites the care
Of curious skill to part the several kinds."

illustrations are furnished by public libraries, parks, theatres, baths, hospitals, and, in fact, there are numberless goods of which it is not necessary to make the use exclusive.

Sometimes the utility of a thing is destroyed wholly or partially, not by any change in the thing itself, but by a change in the minds of those who use it. Thus books which at one time were in demand may be converted into waste paper, and dresses once fashionable may be practically useless.¹ On the other hand, sometimes the work of consumption is performed by nature altogether against the wishes of the possessor of the commodity. Thus break-waters, embankments, and docks are wasted by the powers of wind and water;² buildings crumble away under atmospheric influences; useful plants and animals are destroyed by living plagues; whilst in addition to the accumulated effects of slowly working causes, we have occasional catastrophes through hurricanes, floods, and earthquakes.

The deeper analysis of the nature of production and consumption has put an end to the controversy as to the line of division between productive and unproductive consumers. "There is no production possible without consumption. The embodiment of a special utility in any substance is a limitation of its general utility. Thus, for instance, when corn is baked into bread it can no longer be used for the manufacture of brandy or starch. When, therefore, consumption is a condition prerequisite to production it is called productive."³ Thus we are forced to the conclusion that all consumption must be regarded as productive which is a means directly or indirectly to the satisfaction of any economic want.⁴ Unproductive con-

¹ This kind of consumption is called by the Germans *Meinungs-Consumption*.

² It is astonishing to observe the massive masonry which is necessary in certain parts of the drainage system of the English fens.

³ Roscher, Bk. IV., Ch. I., p. 211.

⁴ I have not thought it advisable to introduce the division of goods according to the order in which they rank in respect to the consumer.—Cf. Marshall's *Principles*, Bk. II., Ch. III.

sumption, on the other hand, embraces every economic loss, every outlay for injurious purposes, and every superfluous outlay for useful purposes. There is no need to dwell upon the fact that much of the consumption of all producers is unproductive.

There are many difficult and important problems connected with consumption, but they are so intimately associated with other topics, that, in my opinion, it is undesirable to treat of consumption in a separate department.¹ It seems necessary, however, in view of the stress laid by almost all recent writers on one of these problems, to examine it at this stage with some care, although it will involve to a certain extent the anticipation of the theory of value. The reader may be invited to return to the following sections in connection with the treatment of the problem in question in the third book. The problem referred to is the distinction between *total* and *final* (or *marginal*) *utility*, and the modes by which they are measured. I regret that on this subject I must put myself in apparent opposition to recent works of great and deserved reputation.

§ 3. *The Measurement of Economic Utility.* It used to be a common-place of political economy that 'things which have the greatest value in use may have little or no value in exchange.' This statement implies that utility cannot be measured by price. The most original contribution, however, to economic theory, since Mill adopted this quotation with approval, is to be found in the development of the conception that utility can be measured by price. This radical change of opinion is founded upon the distinction with which in this country the name of Jevons is associated between *total* and *final* (or *marginal*) *utility*. The idea of measuring such an intangible variable as utility by such a concrete reality as price is certainly very fascinating.

¹ See *Political Economy*, by C. S. Devas, Bk. I., Chs. IX., X., for an excellent account of the nature and kinds of consumption. Also, article "Consumption" in Palgrave's *Dictionary*, by the present writer.

Bentham, who with rigorous logic had expressed all utilities, from poetry to push-pin, in terms of pleasure and pain, and had denied any real qualitative difference, had not advanced in the measurement of the quantity of utility beyond the enumeration of certain important causes of difference. These are indicated with sufficient accuracy in his mnemonic lines:—

“Intense, long, certain, speedy, fruitful, pure,
Such marks in pleasures and in pains endure.”

Take the corresponding substantives suggested by these adjectives, and you have the elements of the hedonistic calculus. Intensity, duration, certainty or uncertainty, propinquity or remoteness, are obviously to be considered in making an estimate or comparison of different pleasures. *Fecundity*, or the chance a feeling has of being followed by feelings of the same kind; that is, pleasures if it be a pleasure, pains if it be a pain; *purity*, or the chance it has of not being followed by feelings of an opposite kind; *extent*, or the number of persons to whom it extends and who are affected by it; these are three other elements added by Bentham.¹

Now it may be admitted that pleasure and also utility in the broader sense vary according to the circumstances indicated. But, on the other hand, it may be urged that it is one thing to point out causes of variation and quite another to measure the effects; and generally it is not the best or the simplest method to measure the effects, by indirectly measuring the causes, and then effecting a summation. The most skilful physician, for example, could not measure a rise in temperature by considering the various causes in operation, whilst the patient himself by

¹ Jevons characteristically observes that ‘these three last circumstances are of the highest importance as regards the theory of morals; but they will not enter into the more simple and restricted problem which we attempt to solve in Political Economy.’ On the other hand, Professor Sidgwick makes *economic* distribution that which secures the greatest happiness of the greatest number.

means of a thermometer could determine it to the tenth of a degree. So long then as utility, even when reduced to pleasure, was supposed to be estimated by calculating the strength of a number of variable causes, accurate measurement seemed to be impossible.¹ But a rise or fall in price is as definite and measurable as a rise or fall in temperature, and if utility can be measured by price, then we have at last obtained the hedonometer (or pleasure-gauge) which from Plato downwards philosophers had sought for in vain.

§ 4. *Total and Final, or Marginal, Utility—Exposition.* In a work of this kind exposition must precede criticism, and it is best to begin with the simplest case. Let us take then the utility, in the sense of immediate pleasure, derived from the consumption of some commodity—say water. Pouring water down a person's throat may under certain conditions of thirst give the most intense pleasure; the same process carried to an extreme formed one of the most exquisite tortures of the inquisition. It is obvious in this case that the degree of utility or disutility to be derived from swallowing or being made to swallow an additional mouthful of water depends *inter alia* upon the amount already swallowed. We may assume that the degree of utility or pleasure diminishes by continuous gradations, and passes through a point of indifference into disutility or pain which again increases by continuous gradations.

The utility derived from the last portion swallowed is called the *final* or *marginal* utility, and the sum of the utilities of all the successive portions swallowed is the *total* utility. In the case of water drunk by a free agent, we may assume that consumption would go on to the point of indifference, or, more technically, to the point when the marginal utility becomes zero. The same rule would apply to the consumption of all articles of which the consumer had a supply practically unlimited.

¹ See the admirable discussion of the difficulties of a hedonistic calculus in Professor Sidgwick's *Methods of Ethics*, Bk. II.

As already pointed out, however, economic utilities are limited, and acquisition must precede consumption. For the present purpose we may next assume that the mode of acquisition is in general by the expenditure of money.

It seems, also, both true and necessary to state further that *the money at the disposal of every person is limited*. It may, then, be laid down as a general law, that the more a person acquires of anything the less will he be inclined to pay for an addition to his stock. After a certain point is reached he will prefer to keep his money for future needs, or to spend it upon some other commodity. In this way we are able, to some extent, to connect utility with price. For we may assume, taking for the sake of emphasis some necessary of life, that the utility of the first portion acquired is so great that for that portion a person would be willing to pay a very great price; but as with successive acquisitions the utility of each portion becomes less, so, also, the price which he is willing to pay becomes less. The price of the last portion bought may thus be said to measure the utility of that portion *for this individual under these conditions* (that is assuming a continuous diminution in utility). In other words the *marginal* price measures the *marginal* utility.

The argument may, perhaps, be made clearer by considering the gradual expenditure of a person's store of money. In this case it is convenient to state the law of diminishing utility in a reverse way, and to say, that as the stock of money decreases through expenditure, the marginal utility of the last portion retained continuously rises. It follows, then, that the further acquisition of a commodity for consumption is checked in a double manner, because as the utility of the next portion to be bought decreases, the utility of the price of money to be given for it increases.

It must be remembered, also, that in highly civilised societies, at any rate, there is practically an infinite number of modes of spending a given sum of money.¹

¹ This seems better than saying that only a small part of a person's expenditure is given to one thing.

This variety of choice imposes a further check on the acquisition of a particular thing. Thus it is no uncommon thing for people to stint themselves in what are deemed necessities in order to satisfy some other desire, which may range from love of ornament or display or indulgence to feeding and clothing the destitute.

We are now in a position to see that it is the marginal and not the total utility of a thing which governs a person's additional expenditure. Half a pound of bread it might be thought must always possess more utility for a poor man than a quarter of an ounce of tobacco; but when we see that he spends regularly a penny a day on tobacco we know that he thereby gains, or, what is the same thing, thinks he gains more satisfaction than by buying an additional pennyworth of bread. The utility of the first loaf of his daily bread may, indeed, be infinite; but the marginal utility of successive loaves rapidly diminishes, and it is the marginal utility that determines marginal expenditure.

It follows, also, that when it is said that a thing may have great value in use but little value in exchange, value in use must be understood to refer to total utility. To a person who has satisfied most of his wants to repletion, the utility of a diamond might well be greater than the utility of an addition to his food, clothes, or furniture, or than that of the retention of a fifty-pound note.

§ 5. *Total and Final Utility — Criticism.* We may appear now to have reached the conclusion that marginal utility, at any rate, can be measured by money. In reality, however, all that has been established is, that *any individual*, who is guided by enlightened economic interest, ought so to adjust his expenditure, that the marginal utilities of all the commodities acquired are equal to one another. If they are not equal he has spent too much on some things and too little on others. Even this is only true on the assumption that (as in the usual curve) we have a *continuous* diminution in the utility of each successive portion. To this we may add, if we further assume that the person

in question saves some of his money, that the marginal utility of the last penny added to his savings ought to be equal to the marginal utility of the last penny given to his expenditure. In this way, it is true, we bring in another marginal utility; but the utility of the penny cannot be said to be measured by a penny. The utility to any person of a penny depends upon what he has and what he wants, and is subject to constant variations according to changing circumstances.

The point of the criticism may be brought out more clearly, if we assume, as at one time was generally assumed, that money is regarded solely as a means of effecting exchanges. We may thus look upon a man as earning money by labour, and, in reality, exchanging his labour against commodities by means of money. In this case we should suppose that he would go on working until the disutility or discomfort of earning another penny was just greater than the utility, or comfort, of spending this extra penny. Here, however, we are only comparing the utility (say) of an extra pipe with the disutility of an extra quarter of an hour's labour.

The penny does not measure either the utility or the disutility. It throws no light whatever on the question how much pleasure he feels in smoking, or how much pain in working.

If utility (in other words, value in use as distinct from exchange value) were measurable in terms of money, then we ought to be able to measure, in terms of money, not merely the utilities that possess exchange value, but others equally. Sunshine, for example, is limited, and we can express the variations in the utility derived from it in various ways. But we certainly cannot express even the marginal utility of sunshine in terms of price.

The simple truth is, that money measures exchange value, and exchange value does not depend only upon utility.¹

¹ It is worth noting that those who have most logically tried to carry out the measurement of utility by price have been forced to the conclusion that value depends only on utility. — Cf. Dr. Smart's *Theory of Value*, p. 8.

The marginal utility of any commodity, as explained above, influences the demand of a particular individual, and this demand is one of the elements that influences the price of the article. In the same market we may suppose that the whole stock of a commodity will be sold at the same price; but it needs no demonstration that the acquisition of the article will give very different degrees of utility in different cases. If we assume that all the buyers have the same incomes and the same tastes, and, in fact, are in all respects similar, then we may, indeed, say that the utilities also will be equal; but this is simply begging the question.

§ 6. *Consumer's Rent.* If, however, marginal utility cannot be measured by money, still less can total utility. In this case, clearly, we never get beyond the range of hypotheses. We assume that for the first portion purchased an individual would be willing to give so much more than the actual price he is called upon to pay, and that he will go on purchasing so long as the utility of acquisition of successive portions is not less than the utility of the money expended. In the typical case, in which perfect continuity is assumed, we may suppose that he will continue to buy until the final utilities of all his purchases are just equal. It may well happen, however, that even for the last portion which he actually buys he would be willing to give much more money. To keep all his fires going in the best manner, a very rich man might give fifty pounds for the last ton of coal necessary, and yet use no more if the price fell to one pound per ton.¹

In any case, we may, of course, calculate, as regards every portion acquired, the excess of the hypothetical price over the actual price, and we may add up the differences and call the sum total consumer's rent. But all we do is, by an ingenious but doubtful analogy, to illustrate the advantages of cheapness and plenty. It is, however, always

¹ In this case there is discontinuity, — but such discontinuity is very common.

dangerous to give the appearance of reality to what is purely hypothetical, and the appearance of definiteness to what is indefinite.

An example will, perhaps, show in the clearest way that the measurement of total utility by price is purely illusory, even if we take only a single individual. Suppose, then, that a person has £100 a year. Rather than go without a minimum of subsistence, he would give the whole £100 for this purpose. But, as the vegetarians tell us, he can live on sixpence a day, or roughly (say) on £10 a year. Therefore his consumer's rent on this part of his expenditure is at least £90. He has also £90 left after satisfying his hunger. Suppose, now, that to clothe himself decently, he would be willing to spend £60 of this £90, but that he can get all he requires for £10. Here, again, there emerges on the commodity of clothing a consumer's rent of £50. And he has still £80 left. Of this, suppose he was willing to pay £30 for furnished rooms, rather than do without shelter, but again let the actual cost of the rooms be £10. In this case, he obtains a consumer's rent of £20. Thus, taking only three branches of expenditure, a person with £100 a year has gained a consumer's rent of £160, and has still £70 left to spend. By taking various assumptions similar to those above, the consumer's rent, measured in this way from the wealth obtained for his £100 may be still further increased. But such a method of measurement seems to me purely hypothetical and illusory. Of what avail is it to say that the utility of an income of £100 a year is worth (say) £1000 a year?

If, as is sometimes done, instead of taking a limited income, and assuming that a man can give no more, even to save his life, we say that the utility of the minimum of food is practically infinite, the idea of measuring total utility or consumer's rent by money becomes still more unreal. For, now, all that we mean is, that if a man had infinite wealth, he would spend it all to save his life. But this is little better than a reminiscence of the wisdom of Job.

It must be observed that the criticism in this section is not directed against the qualitative distinction between total and final utility. As will appear later on, the real advantages of exchange and the nature of demand are elucidated by taking account of this difference. It is the attempt to measure utility (in either form) in terms of money that appears to me delusive. For, strictly speaking, we can never get beyond one individual, and that too, under hypothetical conditions.

Whether or not a man will buy another portion of some commodity depends not only upon how much he has already of that thing, but upon how much money he has still to spend; and this, again, depends partly upon how much he has already spent, and partly upon how much he had to begin with. Thus, even with the same individual, a change in the cost of some things must change his so-called subjective valuation of other things. The money measure, then, of the final utility of anything varies not only with his desires and means of satisfaction in respect of that thing, but with his desires and means in respect of all other things. All, then, we have left is the assertion that at any moment a person will not buy more of anything if he thinks he can do better by applying the money in some other way. The utility of the last piece of money given may be said, no doubt, at that time to that individual, as already explained, to equal the utility of the last portion of the commodity acquired; but to say that he likes one thing just as well as another tells nothing as to how much he likes either.

When we try to introduce a number of other people, our conclusion is still more barren; for now all we are entitled to say is that somebody, at some point, will find that the price is such that he is willing to purchase just one more portion at that price. But of the rest of the multitude, some would have been satisfied to pay a higher price for their last portion, and some are not willing to pay that price. So that the price measures the final utility

to this individual (and others exactly similar), and as before, it only measures it in terms of the utility he and they attach to the money spent.

In my opinion, then, the attempt to measure utility—even marginal utility and *a fortiori* total utility—in terms of price is misleading. It is a case of the use of an inappropriate conception.¹ It seems to me far preferable (as the older writers did) to emphasise the fact that price measures exchange value, and not utility. To do otherwise is to maintain a constant struggle with paradoxes, explanations, and hypotheses. Some of these are noticed in the appendix to this chapter.

§ 7. *The Measurement of Utility by Labour.* Adam Smith has been severely criticised for the assertion that labour is ‘the ultimate and real standard of value.’ The truth appears to be that in discussing the difference between ‘the real and nominal price of commodities, or of their price in labour and their price in money,’ he passes unconsciously between objective exchange value and subjective value in use (or utility). So far as exchange-value is concerned, the criticism offered by Mill² appears to be just; and it has been strengthened by recent work on index numbers and other methods of measuring changes in the purchasing power of money. No simple absolute measure of exchange value is attainable. “Why,” asks Ricardo,³ “should gold, or corn, or labour, be the standard measure of value, more than coals or iron?—more than cloth, soap, candles, and the other necessities of the labourer?—why, in short, should any commodity, or *all commodities together*, be the standard, when such a standard is itself subject to fluctuation in value?” The answer, however, to this question, and the consideration of the

¹ An illustration may be taken from heat. A clinical thermometer will measure accurately the heat of the body—but it says nothing of the corresponding feeling. Heat is one thing as a mode of motion—another as a sensation.

² Cf. Mill, Bk. III., Ch. XV.

³ Ricardo, Ch. XX., p. 166.

difficulties involved must, in the present work, be transferred to the department of exchange value.

But as is partially admitted by Mill, Adam Smith is on firmer footing when he proposes to measure by labour, or a quantity of labour not exchange value, but value in use or utility.¹ "Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength, and spirits, in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price [*i.e.*, disutility], which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. [Here he passes to *exchange* value.] Of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labour which purchases them. At all times and places, that is dear which it is difficult to come at, or which costs much labour to acquire, and that cheap which is to be had easily, or with very little labour. Labour alone, therefore, never varying in its own value [*disutility*], is alone the ultimate and real standard by which the value [*exchange*] of all commodities can, at all times and places be estimated and compared."

In this passage we have, at any rate, a standard suggested for the measurement of utility, which is not open to the same objections as a "shilling's worth of happiness." The more ease, liberty, and happiness, a man is willing to lay down to acquire a thing, so much the greater must be supposed the utility to him of the thing; and we are comparing similar things—the sacrifice of happiness with the acquisition of happiness. We may suppose, according to the law of diminishing utility, that he goes on laying down happiness with a decreasing gain, but still some gain, until he reaches the point of indifference. By a stretch of the scientific imagination, we may suppose that

¹ McCulloch's Edition, p. 15.

a prudent man, well skilled in the use of the hedonistic calculus, might express all utilities whatever in terms of the quantity of labour he would be willing to give for them, and if we further assume the possibility of different people adopting the same subjective measure, we arrive (hypothetically) at a perfect standard of utility. It is, however, quite clear on reflection that the appearance of exact measurement (although not contradictory as in the former case) is equally illusory, and it has only been introduced for the purpose of showing the difficulties involved. "A franc," says Ricardo, "is not a measure of value for anything, but for the quantity of the same metal of which francs are made, unless francs and the thing to be measured can be referred to some other measure which is common to both. This, I think, they can be, for they are both the *result* of labour, and, therefore, labour is a common measure by which their real as well as their relative value may be estimated."¹ If, by value in the first phrase, Ricardo had intended utility, he would have exactly expressed the criticism implied in this section,—a franc is not the measure of the utility of anything; but the next clause shows that he is referring to objective exchange value, which he supposes to rest upon cost of production, and this again upon quantity of labour.

It must be understood that in the present section I do not profess to give an exhaustive and critical account of the opinions of the three great writers named upon the question in hand. My object is rather to indicate that what they have failed to make clear calls for close attention on the part of the reader. The exaggerated stress recently laid on the doctrine of final utility, and its consequences, must be my apology for the length and difficulty of this chapter.

¹ Cf. Ricardo, p. 171.

NOTE ON PROFESSOR MARSHALL'S TREATMENT OF CONSUMER'S RENT.

If the idea of Consumer's Rent were intended simply to explain the varying degrees of satisfaction derived from spending money in various ways — in other words, if it were intended simply for the explication of certain conceptions — the hypothetical character of the measurements assumed might be passed over. But Professor Marshall definitely states that 'the exact measurement of the Consumer's Rent in a market has already a great theoretical interest, and may become of high practical importance.'¹

He applies the notion also to such definite concrete problems as the imposition of taxes and the bestowal of bounties. "It might even be to the advantage of the *community*, that the government should levy taxes on commodities which obey the law of diminishing return, and spend part of the proceeds on bounties to commodities which obey the law of increasing return."² Stripped of its technical phraseology, this amounts to saying that a government, with advantage to the *community*, might tax bread and coals to give a bounty on calico and matches; or more generally, that it might tax agricultural and mineral produce to give bounties to manufactures. A paradox of this kind is only presentable when arrayed in hypotheses, and it may be useful to notice some of the most prominent.

(1) In the general explanation of the doctrine of Consumer's Rent (Bk. III., Ch. VI.)³ it is stated: "There is a difficulty in estimating the total utility of commodities, some supply of which is necessary for life; for instance, the utility of the food required to keep a man from starvation is indefinitely great. The best plan is, perhaps, to take that *necessary supply for granted*, and estimate the *total utility* only of that part of the commodity which is in excess of this amount." Surely it is a strange procedure to leave out of the total utility of necessities all that utility which causes them to be called by that name. Again, if the utility of the first portion is 'indefinitely great,' when measured by price the price also must be 'indefinitely great.' But no man can give more than he possesses, and the conception of an indefinitely great⁴ price is contradictory, since all incomes are limited.

(2) It is further assumed (p. 182, note) in the preliminary statement that it is 'not necessary to take account for our present purpose of the possibility that the marginal utility of money to him might be

¹ *Principles*, Vol. I., p. 186.

² P. 508-11.

³ P. 181, Note.

⁴ Of course the standard, as usual, is assumed to be constant. When inconvertible paper is on the point of being discarded as worthless, prices measured in that medium may be said to be indefinitely great.

appreciably altered in the course of his purchases.' In the mathematical Note VI. (p. 753) this assumption is stated still more explicitly, and made to rest on the ulterior assumption 'which underlies our whole reasoning, that the expenditure on any one thing, as for instance, coals, is only a small part of his whole expenditure.' The same position is taken up in the text (p. 393), although on the next page it is allowed that in markets for labour the exceptions are frequent and important, and that a workman in fear of hunger, and putting a very high marginal utility on money, may go on selling his labour too cheap. It is, however, clear that in all cases we must consider the marginal utility of money. Even the dealer, who looks to re-selling the article, finds that the more he has bought the less he can buy, and that his potential resources are diminished by every transaction, *e.g.*, in a speculation for the rise on the stock exchange, or in laying in stores in view of a scarcity, or in buying with the view of extending his business. If we take the case of the ordinary consumer, the most obvious condition which he must always take account of is, that the more he spends the less he has to spend; and apart from this the great mass of the people spend the bulk of their earnings on a very few commodities.

The importance of this assumption may be gathered from the following passage (p. 394): "The theory of buying and selling becomes, therefore, much more complex when we take account of the dependence of marginal utility on amount, in the case of money as well as of the commodity itself. When we do this we are really reverting to the problem of *barter*, in which the changes in the marginal utilities of both commodities are, of course, prominent. As we have remarked, barter, though earlier historically than buying and selling, is really a more complex transaction, and the theory of it is *curious rather than important*." (See Note on Barter, p. 395.) But what if all exchange is barter?

(3) In the general statement, at first (p. 183), we are invited to "neglect for the moment the fact that the same sum of money represents different amounts of pleasure to different people." The procedure is, of course, logically defensible if the neglected fact is afterwards introduced. But this is not the case except in appearance. First, the nation is divided into three classes — rich, middle, and poor. Within these classes the units are supposed to be similar; but it is expressly stated that the marginal utility of money is very different in the three groups, and what the difference is, is plainly indeterminate. Secondly, it is maintained that what is true of a composite group at Leeds would be true of a similar group at Sheffield, and, for example, that a tax of £1 per head (or conversely an increase in income) would, on the whole, affect both groups equally. But the conclusion is purely formal; the

important point is, that a tax of £1 per head would impose burdens on the members of the community, varying from zero to the pains of starvation, eviction, beggary, and the like. The principle of equality of sacrifice cannot be simplified in the manner supposed.

(4) On page 184 (*note*) it is stated 'that it is seldom possible to get the data necessary for drawing the demand curve complete.' But unless the demand curve is complete we cannot get the *total utility* or the consumer's rent; above all, we cannot get the *total utility* to the community.

(5) On page 503 (*note*) it is stated: "If, therefore, a given aggregate taxation has to be levied ruthlessly from any *class*, it will cause less loss of Consumer's Rent if levied on necessities, than if levied on comforts." Logically, class must here again mean a group of similar units, and the argument so far is formal. The paradox is resolved only at the expense of reality. Under the supposition made of a ruthless levy, practically the best mode of exaction would be by direct money payments.

As a matter of fact, Professor Marshall himself, in criticising Jevons, really destroys his own position on Total Utility and Consumer's Rent. (See his note on Ricardo's *Theory of Value; Principles*, Bk. V., Ch. XIV., p. 538.) Professor Marshall says, for example, that "the exchange value of a thing is the same all over a market, but the final degrees of utility to which it corresponds are not equal at any two parts;" and again, in conclusion, he writes: "Perhaps Jevons' antagonism to Ricardo and Mill would have been less, if he had not himself fallen into the habit of speaking of relations, which really exist only between demand price and value, as though they existed between utility and value." Professor Marshall seems to have attempted the task of supplying Jevons' theory with the hypotheses necessary to make it true. The complexity of hypotheses is so great that it may be expected to lead, as in similar cases in other sciences, *e.g.*, astronomy, to the abandonment of the central theory.

No expansion of the formula, 'the more we have the less we want,' can be a sufficient substitute for the enumeration of the many and various actual conditions which govern the consumption of wealth, and the prices of commodities and services.

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CHAPTER IV.

NATURE.

§ 1. *The Functions of Nature in Material Production.* Nature provides man with materials and powers, and in every country natural conditions are of fundamental importance in the production or acquisition of material wealth, although, in some cases, the importance of this element is apt to be overshadowed by the growth of capital and the organisation of labour. The wealth of Holland in the seventeenth century, which was the marvel of the world, was supposed to have been acquired in spite of natural disadvantages; and John Law expressed a common opinion when he said: "If Spain, France, or Britain, or any one of them had applied to trade as early and upon the same measures as Holland did, Holland would not have been inhabited." But Holland had natural advantages of situation, without which it could not have become the *entrepot* between the North and the South and the East and the West. In England, at the present time, in spite of the predominance of trade and manufactures, natural conditions are of primary importance; the coast line and rivers, the proximity of rich coal and iron fields, the temperate, moist climate, and the fertility of the soil, are still the foundations of the wealth of the nation. To take a larger example, the great trades of the world are carried on between regions adapted by nature for different kinds of production.

Man may modify and control, but he can never dispense with the materials and the powers of nature. This propo-

sition may, perhaps, appear too obvious to require explicit statement; but it is closely connected with a controversy which for a long period attracted much attention, namely, whether nature gives more assistance to labour in one kind of industry or in another. Locke, in his *Essay on Civil Government*, had emphasised the paramount importance of labour in the production of wealth. "I think it will be but a very modest computation to say, that of the products of the earth useful to the life of man, *nine-tenths* are the effects of labour; nay, if we will rightly consider things as they come to our use, and cast up the several expenses about them, what in them is purely owing to nature, and what to labour, we shall find that in most of them *ninety-nine hundredths* are wholly to be put to the account of labour." In this passage there is no doubt a confusion between value and utility; but a little later on he speaks of "nature and the earth as furnishing only the almost worthless materials as in themselves," and we may fairly assume that, in his opinion, the *utility* of most things is due far more to labour than to nature. The French Economistes or Physiocrats modified this general statement, and insisted especially upon the conceit, as Mill calls it, that Nature lends more assistance to human endeavours in agriculture than in manufactures. Mill himself is content to say that "the part which nature has in any work of man is indefinite and incommensurable. It is impossible to say that in any one thing nature does more than in any other. One cannot even say that labour does less." In the strict sense of the terms, this criticism may, perhaps, be considered just and relevant; but, after all, that only amounts to saying that the question has been badly worded. An economic distinction, which Adam Smith considered real and important, has probably some element of truth in it. The truth implied may, perhaps, be better indicated in the proposition that, to obtain commodities of equal utility, different quantities of labour are necessary according to variations in natural conditions. An obvious and important example

is furnished by the phenomena on which economic rent depends. The same labour and capital applied to different soils give different returns according to the assistance afforded by nature.

I have discussed this question in a separate essay¹ from which the following illustration is taken. Certain things are presented to man by nature, without any labour, except the mere labour of occupation, as it has been termed. If these things are *limited*, and satisfy human wants, they possess value; and this value *in proportion to the labour and capital* expended in their acquirement may be very great. The labour of acquisition is saved by nature, or as Adam Smith says, nature does the chief part of the work. Capital devoted to the production of indigo from the natural plants yields a very large profit, whilst the same amount of capital applied artificially by chemical methods will not pay its expenses. We may fairly say that the former method is more productive because nature labours with man.

§ 2. *Of the Gifts of Nature some are practically unlimited, others limited.* The distinction between the unlimited and the limited utilities afforded to man by nature, as so often happens in economic classifications, is indicated by a line which varies in different times and places. This variation appears to be due to three circumstances: namely, the number of people who desire the utility, the importance they assign to it, and the art or knowledge involved in its exploitation. Take, for example, the typical manor of the early mediæval period. Generally, the use of the common pasture was without stint, and so long as the number of inhabitants was small, and their means of wintering stock unrestricted, there was no need for limitation even in the interests of the lord of the manor.² In

¹ Introductory Essay to *Wealth of Nations*. See also my *Tenants' Gain*, Ch. I.

² Thorold Rogers' *Six Centuries*, p. 24. On the links of Dornoch, in Sutherland, I am told that there is no limitation to the number of horses and cattle imposed on the crofters, and there is no need for the reasons stated in the text.

many cases, also, the use of wood for building or instruments or fuel was also unrestricted, whilst, at the same time, the most savage laws prevented the pursuit of game however abundant. In general, as is shown in the case of fisheries, forests, commons, and the like, in the course of industrial progress, the limited class has constantly increased at the expense of the unlimited. In rare instances, however, the reverse has happened through the substitution of something better adapted for the purpose, or through a change in wants or desires. The best example is furnished by the recession of the "margin of cultivation" on land. In general, the immediate effect of great agricultural improvements is to make the cultivation of some inferior land no longer profitable. The economic result (as distinct from any merely legal question of appropriation) is that land passes from the class of the limited to that of the unlimited gifts of nature. A similar effect may follow on the substitution of one kind of produce for another, land specially adapted to the old produce not being suitable to the new.

In the degradation of a race, from a higher to a lower stage of civilisation, the absorption of the limited into the unlimited class of natural powers and materials, is one of the best marked characteristics. Lands become wastes and cities become open quarries. The excavations of the cities of dead civilisations show how completely, under certain circumstances, nature may regain the mastery over man.

In some cases, however, the relapse of cultivated land into waste seems to be due to the exhaustion of the natural fertility. In former times there were dense populations, self-supported, in vast areas of Africa and Asia Minor, and even in certain parts of Italy and Spain, of the productiveness of the soil of which we can at present discover only slender traces.¹

¹ *The Earth as Modified by Human Action.* — MARSH. Many interesting and detailed examples are given in this work of the oscillations between intensive cultivation and arid waste.

A second distinction turns not so much on the abundance, or the scarcity, of the gifts of nature, as on the capability, or incapability, of exchange and appropriation. Thus the light and warmth of the sun, and similar beneficial climatic influences, may be described as free gifts of nature which cannot be economised, but they are bestowed in very different measures upon different parts of the world. The winds and the tides are amongst the most important motive-powers; but they can only be used directly as nature furnishes opportunities, and the same forces may at one time be too strong, and at another too weak, for the purpose in view.

Although, as already stated, political economy has, in general, but little to say with regard to utilities that do not possess the three economic marks, in considering the production of a nation's wealth, it is necessary to take a survey of the principal natural conditions by which it may be affected, both as regards its variety and its abundance. As already stated, these natural conditions are always of fundamental importance, although in general, the truth is only adequately realised on the occurrence of some great catastrophe.

§ 3. *The Natural Constituents in National Production.*¹
The most important elements in the natural resources of nations appear to be the following:—

1°. *Climate* which affects directly the vegetable and animal products, and, indirectly, at least, the efficiency of human labour. Under climate we have to consider the temperature, including not only the average but the extremes of heat and cold in different times of the year, the moisture, again including not only the average but varying degrees at different times, the direction and force of the winds, and the healthiness or the reverse of the atmosphere. Abundant illustrations of these various influences are given in works on commercial geography,² and the only difficulty is one of enumeration.

¹ Cf. Schönberg's *Handbuch*, p. 198.

² See Chisholm's *Commercial Geography*.

2°. The *superficial appearance* of the country introduces several factors of importance; mountains and plains respectively obstruct and facilitate trade; forests may in some cases retard, in others accelerate the growth of wealth; the coast may be indented with natural harbours, or unapproachable through rocks and sands.

3°. The *fertility* of the soil, and the *geological formation* of the earth's crust are of obvious importance, the former as largely dominating the agricultural production, and the latter the mineral wealth of the country. The discovery of mines has often transformed a district within a few years (*e.g.*, the gold mines of Australia and California), and the virgin soils of new countries have thrown out of cultivation the less favoured lands in the Old World.

4°. *Water* must be considered under several aspects: as furnishing means of communication in lakes or navigable rivers, as necessitating large drainage works, as in the fens of England and Holland, as providing power for mills, or in recent times, as the source of electricity.

5°. The *situation* of a particular country, as regards the rest of the world, and especially in relation to the great trade routes, has often been the principal factor in determining commercial supremacy.

It will be observed that of these gifts and powers of nature, some (*e.g.*, climatic influences and natural harbours) are practically unalterable by use, others (*e.g.*, the soil) are partially exhausted and renewed, and others again (*e.g.*, mines) are gradually exploited without renewal. As in most countries agriculture in some form is the most important element of national wealth, the preservation of the properties of the soil is of especial importance. The nature of various soils, and the methods best adapted for different cases, can only be adequately discussed in works on scientific agriculture. In its general aspects, however, the subject is of economic interest, especially with reference to the rent of land, and the growth of population, and will be treated at a later stage.

CHAPTER V.

LABOUR.

§ 1. *Twofold Meaning of Labour, and first of Subjective Labour.* Labour is used in two different senses, which are most briefly described by the philosophic terms, subjective and objective ; that is to say, labour may be considered, on the one hand, as involving a certain degree and kind of feeling on the part of the labourer, and on the other, as effecting a certain result in doing a certain amount of work. In general, the nature of the feeling involved in economic labour must be regarded as in itself painful, disagreeable, or irksome, or, at any rate, as causing a sense of effort and strain. Accordingly, as a rule, it is undertaken and endured with the view of some ulterior object, such as the satisfaction of present or future wants.

In certain degrees of civilisation, however, the natural aversion to labour is overcome by compulsion and punishment in case of default. Thus, in ancient civilisations generally, almost all the labourers were slaves, and the inducement to work was the fear of penalties. In modern times, the labour of children is more often the result of obedience than of any hope of reward.

Many economists have been so much impressed by the hardship of labour, that they have explicitly described the exertion as essentially painful.¹ This position, however, appears too extreme. A man in full vigour of mind and body often takes real pleasure in his work, and certainly would find idleness irksome. Again, most writers have

¹ Cf. Jevons' *Theory*, Ch. VIII., p. 163 ; and see his curve, p. 168.

followed Adam Smith in mentioning, amongst the causes of differences of wages and profits, not only the disagreeableness, but the agreeableness of the employment. They have agreed, also, with him, that honour forms the greater part of the reward of all honourable professions; and, in most cases, this honour is coincident with the labour, and is not of the nature of an order of merit bestowed like wages at the end of a certain period.

On the other hand, Fourier and his followers have attempted to prove that, if work were properly distributed, it should always be directly pleasurable. Under existing conditions,¹ however, as in the past, there is no doubt that the mere pleasure of working would be quite inadequate even to carry on with efficiency the most honourable of regular employments. "In England," says Adam Smith,² "success in the profession of the law leads to some very great objects of ambition; and yet how few men born to easy fortunes have ever in this country been eminent in that profession." It seems to be only in the realm of sports, and not often there, that the amateur is equal to the professional; and this is only another way of saying that the mere pleasure of work is seldom sufficient to secure the greatest proficiency.

§ 2. *Quantity of Labour (Subjective) explained.* "It is often difficult to ascertain the proportion between two quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's work than in two hours' easy business. . . . The greater part of people understand better what is meant by a quantity of a particular commodity than by a quantity of labour. The one is a plain, palpable object; the other an abstract notion which, though it can be made sufficiently intelligible, is not altogether

¹ See H. Sidgwick's *Principles*, p. 526.

² Adam Smith, Bk. V., Chs. I. and II.

so natural and obvious.”¹ Although it may prove to be impossible to obtain any accurate or even adequate measure of ‘quantity of labour’ in this sense, it is quite possible to point out the causes by which it is determined, and the influences according to which it varies. And this, indeed, is one of the most important inquiries in political economy; for, since the object of all production is utility, and since the greater part of labour in the subjective sense must be regarded as of negative utility to the worker, it is always necessary to strike a balance in order to arrive at the net advantage. This idea is at the root of the popular saying that a thing or an action may be more trouble than it is worth. A savage gathering shell-fish must decide when the pain of acquisition outweighs the pleasure of consumption, and in modern industrial societies a similar computation is only hidden by the intervention of money. To take a simple case, the man who works by the piece, *e.g.*, a stone-breaker, must consider whether it is worth his while to earn another sixpence, and the time-worker, under a system of real freedom of contract, must solve a similar problem with regard to his hours of labour.

The general treatment of the conception and the measurement of a quantity of labour involve precisely the same difficulties as are found in the case of utility. Some German writers have attempted to construct a unit of measurement in the expenditure of life-force, and others have tried to express other forms of labour as equivalent to so much unskilled labour. Such methods of computation, however, seem to be purely hypothetical. In the disutility of labour, as in the utility of consumption, we cannot get beyond the enumeration of the principal causes and conditions of variation. In the same way, with regard to the efficiency of labour, it is theoretically conceivable that it might be measured, like other forms of energy, in foot-pounds. But any one who makes the attempt to express

¹ Adam Smith, Bk. I., Ch. V. See also my *Effects of Machinery on Wages*, Introduction.

the efficiency of different kinds of labour in this manner will soon learn to be content with the imperfect methods of general description. The next two sections are accordingly devoted to an examination of the principal causes of variation in the quantity of labour (subjective), and the efficiency of labour (objective).

§ 3. *Causes of Variations in the Quantity of Labour (Subjective)*. I. *Time*. The most important element in the quantity of labour is, in general, *time*; that is to say, the irksomeness of work, or, technically, the negative utility of labour, varies with the time during which the labour takes place. Speaking roughly, we may say that there is six times as much labour in a working week as in a day, and fifty-two times as much in a year as in a week. But even when we consider time only, the relation is not generally one of such simple multiplication.

In beginning to work, whether with the mind or body, there is at first a greater sense of effort than after the lapse of a certain time; then comes a period in which this element of disagreeableness is tolerably constant, and in which the disutility is often rather neutral than positive; but as soon as the physical or mental strength is partially exhausted there is a very rapid increase in this disutility. The quantity of labour, for example, in the twelfth hour, is far greater as a rule than that in the second. After a certain lapse of time, indeed, no amount of future benefit would be considered a sufficient recompense for the deprivation of sleep.¹

II. *Intensity*. In conjunction with time we must take into account the intensity of the labour. As Adam Smith said: 'there may be more labour in an hour's hard work than in two hours' easy business.' Here, again, it is plain that the disutility increases very rapidly after a certain degree of intensity is reached. To do in an hour what would naturally, or normally, take two hours, would

¹ In the extreme case of overwork we may speak of the infinite disutility of being dead, as corresponding to the infinite utility of being alive, due to the first results of work.

involve far more than twice the quantity of labour, or, in other words, the strain on mind and body would be proportionately greater.¹

III. *Preparation.* Under the quantity of labour involved in any piece of work, we ought logically to include (as certainly every school-boy knows in his own case) all *the preparation* that may previously be necessary. Thus, in the labour of the professional man, we ought to take account of the time and trouble involved in qualifying for the profession. Adam Smith seems then to be perfectly justified in saying that there 'is more labour in an hour's application to a trade which it costs ten years' labour to learn than in a month's industry at an ordinary or obvious employment.'

IV. *General conditions.* We must take into account also the conditions under which the work is done, and, in many cases, not only the physical and sanitary but the mental and moral surroundings. The importance of the element is seen from the reflection that a large part of the lives of all who work is spent in doing that work. In the language of the biologists we must consider the whole environment of the worker.

V. *Special conditions.* In addition to these general causes of variation in the quantity of labour, in every case there are certain special causes connected with the nature of the employment. Some idea may be formed of the variety and complexity of these causes in the production of material wealth by ordinary labour, if we look at the remedies for special evils provided by factory and other legislation. An excellent summary of the varieties of conditions affected by the present laws of England is given by Mr. John Morley.²

VI. *Duration of power to labour.* If we take as our unit of time not the hour, or the day, but the average duration

¹ Compare in racing or rowing the same distances covered in different times.

² *Life of Cobden*, Vol. I., p. 303. Cf. also *Effects of Machinery on Wages*, Ch. III. Cf. *infra*, Bk. II., Ch. XI.

of life in various occupations, we may regard quantity of labour as involving the expenditure of a certain amount of 'life-force.' The importance of this consideration can only be realised by referring to the returns of the death-rate in different employments.¹

Without anticipating the problem of the determination of wages, we are able at once to deduce certain practical conclusions. In the *first* place, it is plain that a general eight hours' day would by no means involve a corresponding uniformity in the real strain of labour. *Secondly*, especially with regard to the higher forms of labour, the intensity of labour is of primary importance. It is more than doubtful whether it is desirable that when people work "they should do it with all their might and especially with all their mind,"² even when the advice is qualified with the addition "that they should devote to labour, for mere pecuniary gain, fewer hours in the day, fewer days in the year, and fewer years of life." The constant high pressure of modern life is associated with great evils, both physical and mental. The economic waste involved in overwork was well brought out by Eden.³ "Any system of employment, therefore, that drives a man to perpetual labour (for that may fairly be called perpetual which admits only of the intervals required for sleep and meal-times), subjects him to the evils of the savage state. When the desire, however, of the artificial conveniences and enjoyments of life are once introduced into a society, there seems to be a greater danger of a man's overworking himself than of his remaining idle, unless he has some other fund than his own industry to look to. It is justly remarked (by Adam Smith)⁴ that masters have rather occasion to moderate than to animate the application of their workmen." *Thirdly*, the philanthropic and laud-

¹ These conditions are further discussed in the chapter on Division of Labour.

² Mill, Bk. I., Ch. VII., p. 3.

³ *State of the Poor*, Vol. I., p. 444.

⁴ *Wealth of Nations*, Bk. I., Ch. VIII.

able desire to provide pensions for the aged poor would, if carried into effect, seem to require equitably a speedy and vast extension. For, if under the strain of work caused by the unremitting energy of machinery, or under the pressure of general industrial conditions, a worker becomes prematurely aged, equitably, he seems even better entitled to consideration than the person who has, on the whole, run his race more easily.

§ 4. *The Efficiency of Labour (Objective)*. Labour, however, must be considered also from the point of view of productive power, or, in other words, we must pass from the subjective to the objective side. Here again we observe certain general and certain special characteristics, the former embracing all kinds of labour, from the lowest to the highest, and the latter varying to a large extent with different employments.

Of the general characteristics the most important affecting the individual labourer, for it is convenient to treat separately the combination and organisation of labour, are :

I. *Qualities of race* : physical, intellectual, and moral. All economists¹ have noted the contrast between the steady perseverance of the English race and the indolence and want of energy and foresight of most of the native races with which they have come in contact. The general acceptance of the theory of evolution, and especially of the principle of heredity, as well as the discoveries by anthropologists of great physical differences in different races, have tended to strengthen the emphasis laid upon this element of efficiency. It is necessary to observe, therefore, that it is easily capable of gross exaggeration.² The indo-

¹ According to Adam Smith, almost the only advantage conferred on the colonies by the mother country is given in the expression, '*Magna virum mater*.'

² Cf. Sir A. Mitchell's *Past in the Present*, *passim*. "The skulls and brains of the fossil man, that is of the earliest man we know anything about, appear to have been as good as, if not better than, the skulls and brains belonging to individuals living in the highest state of civilisation." P. 175.

lence and improvidence of the Celtic crofters are too often set down to racial character, regardless of the fact that the same people have formed excellent emigrants to new colonies. It seems probable also that, in one or two generations, the natives of temperate regions lose their characteristic energy when located in the tropics. Yet it cannot be maintained that a hot climate in itself is fatal to energy, nor have the northern races always taken the lead in industry, science, and art. In antiquity, China, Egypt, Greece, and Italy, to take the most obvious examples, attained a high degree of civilisation, whilst the temperate regions were peopled by barbarians; after the fall of the Roman Empire civilisation probably owed most to Arabian influences; and the industrial supremacy of England and of the English race, if we measure by centuries, has been only recently established. As a matter of fact, what is hastily ascribed to race is often due to influences of quite a different character.¹

II. *The supply of food*, and generally of the necessaries of life, has an important bearing especially on manual labour. Some interesting facts on this topic were collected by Mr. Brassey, the contractor for some of the principal railways in different countries.² It was shown, in many cases, that the comparative inefficiency of foreign labour was due to inferior food, the more generous living of the English navy being conducive to much greater energy. A striking illustration was furnished by the different scales of wages paid. Many other examples might be quoted of the paradox that cheap labour is dear labour. The truth implied was understood and acted on in respect to labouring cattle long before it was thought of in respect to labouring men.³ The difficulty is, as often pointed out, that with free labour the labourer is lord of himself, and the employer is not so sure of how much it will profit him as he is in the case of his horses. There is, however, no doubt that manual labour, degraded by physical want, is most in-

¹ See Walker's *Wages Question*. ² *Work and Wages*. ³ Walker.

efficient. With respect to the higher grades of labour this element is of minor significance, as the earnings make the mode of living a matter of choice. In general the style of living, at least in northern climes, of those who can afford it, errs on the side of excess.

III. *Sanitary conditions* are often of primary importance, not only as regards the actual work, but the dwelling-place. The advantages of fresh air, warmth, and light are too obvious to be pointed out, though not sufficiently obvious to be generally heeded.¹ A recent Royal Commission showed that, in Glasgow and many other cities, workers preferred their one-roomed houses in the centre of the city, in spite of facilities for travelling to the suburbs, where rents were lower and accommodation superior. In most of our villages, the elements of sanitation are utterly neglected, whilst the condition of the cellar population in cities is probably worse than that of the cave-dwellers of pre-historic times.

IV. The *intellectual ability*, natural and acquired, of the labourer is of importance, even in the lower grades. In agriculture, for example, and in other industries, machinery cannot be used, and various processes cannot be tried, simply because of the stupidity of the workers. The pain of a new idea, as Bagehot called it, is too much for them; if they had their way, they would lapse into the caste system of the East. With the enormous use of mechanical appliances general intellectual ability, contrary to what is sometimes supposed, is of increasing importance on the whole.² In all the higher grades of labour this factor is predominant, for in these the mind is the real instrument of production.

V. The *moral activities* and capacities are qualitatively of equal importance with the purely intellectual, but the difference in degree is not generally so striking. In the

¹ In Scotland, as a whole, very nearly a third of the population live in houses of one room, more than two-thirds in houses of one or two rooms, and nearly nine-tenths in houses of four rooms and under.

² *Effects of Machinery on Wages*, Ch. III.

economics of modern industry most stress is, as a matter of fact, laid upon self-regarding motives; and, until recently, this emphasis was also observed in economic theory. "I have never known," said Adam Smith, "much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it." And in a later portion of his work (which has, unfortunately, dropped out of the systematic treatment of most of his successors) Adam Smith applies the same principles to the highest grades of labour, including all the professions.

That the efficiency of labour varies according to the expectation of reward, and the security of enjoying of that reward, is, perhaps, both for present practical purposes, and for the explanation of past historical conditions and revolutions, the most important principle of political economy. And it is of especial importance at the present time, when the criticism of old doctrines is giving an exaggerated prominence to exceptions which had previously been too much neglected. The aversion to regular, steady, monotonous labour—the kind of labour which distinguishes the civilised man from the savage who is only capable of short outbursts—requires to be met with an equally constant inducement to work, or, in current economic language, the negative utility must, at least, be balanced by a corresponding positive utility. Common sense morality, altogether apart from the sanctions of positive law, suffices with the great mass of a nation to enforce the fulfilment of what are pronounced to be the ordinary obligations of social life; but from the point of view of common sense, a man who does any work for a less price than his services will command is considered either an enthusiast, or a fool, and if he has others dependent upon him, the condemnation is more severe. The minister of religion and the minister of politics, the teacher, the physician, the lawyer, the author, and the artist, one and all—if we

take the average type — need the spur of self-interest to surmount the ordinary drudgery of their calling. Being ordinary men and not brutes, they are on various occasions moved by other impulses, just as a few of their extraordinary fellows are constantly so moved. When, however, Christianity itself, dispassionately regarded by the economist, finds its earthly support in earthly rewards and honours, how can it be expected or maintained that a substitute for self-interest can be found for the ordinary business of life? The appeal to history is still more decisive, as showing that the main-spring of economic progress has been economic interest. In this progress there has been no more powerful influence than the substitution of free labour for slavery. Regardless of the fact that in the most advanced Christian nations, slavery survived down to the present century, its abolition has been ascribed, on the ground, apparently, that what ought to have been must have been, to the spread of Christianity. But the most active cause of this abolition is to be found, not in the so-called higher, but in the so-called lower nature of man. It was the discovery, not that Christ had proclaimed the equality of men, but that freedom and rewards were more efficient than slavery and punishments in calling forth the energies of labour. The Romans were indifferent to cruelty, except so far as in their sports they regarded it as a pastime. "It is very possible," says Mommsen,¹ "that compared with the sufferings of the Roman slaves, the sum of all negro suffering is but a drop;" he refers particularly to the system of agrarian slavery,² — "the plantation system proper, — the cultivation of the fields by a band of slaves not unfrequently branded with iron, who, with shackles on their legs, performed the labours of the field under the overseers during the day, and were locked up by night in the common, frequently subterranean, labourers' prison." But the Romans discovered

¹ *History of Rome*, Vol. III., p. 80 (translation).

² *Ibid.*, Vol. III., p. 79.

that *coloni*,¹ of which, perhaps, the most intelligible translation is serfs, were more efficient labourers than slaves. In the same way, in the mediæval period, the *villeins* were, by a series of tentative experiments, converted into small tenant farmers or proprietors.² It is true that the lead in this gradual emancipation appears to have been taken by the churchmen; but it must be remembered that they were very large land-owners, and that they also took the lead in all kinds of agricultural improvements, as for example, in sheep-breeding. "The experience of all ages and nations, I believe," says Adam Smith,³ "demonstrates that the work done by slaves, though it appears to cost only their maintenance, is in the end the dearest of any. . . . The planting of sugar and tobacco can afford the expense of slave cultivation. The raising of corn it seems in the present times cannot. In the English colonies, of which the principal produce is corn, the far greater part of the work is done by free men. The late resolution of the Quakers in Pennsylvania, to set at liberty all their negro slaves, may satisfy us that their number cannot be very great. Had they made any considerable part of their property, such a resolution could never have been agreed to."

A recent example, of the increase of the efficiency of labour with the increase in its reward, is furnished by Profit-Sharing. Here the central idea, from the production point of view, is simply that under the stimulus of a share in the profits, the workers, through increased efficiency and care, really create the profits which they are to receive. When this form of industry has been most successful, it has always been founded on this purely business principle.⁴ Other elements are no doubt present, but the economic foundation is an increase of efficiency under the spur of increased interest.

¹ Adam Smith, Bk. III., Ch. 2.

² Seebohm's *English Village Community*.

³ See McCulloch's Edition, p. 172.

⁴ Gilman's *Profit-Sharing*.

It does not seem necessary to give further positive illustrations of a principle, which, throughout this work, will be constantly forced on the attention. One more example, however, may be offered from the negative side which deserves notice at the present time. In 1853,¹ a considerable number of the Parochial Boards of Scotland had become desirous of devising some plan for the employment of the partially disabled poor, and it was supposed that agriculture offered the best means. It was believed that the Pauper Colonies of Holland afforded a good model. Accordingly, Sir John McNeill paid a visit to Holland, and made a report. He found that the free colonies (*i.e.*, those formed for the indigent of good character), after a trial of 30 years, were a complete failure. The most intelligent of the officers were of opinion, that even if the colonists had been selected from the class of agricultural peasants, the colonies could not have been made self-sufficing, so long as maintenance was secured to the colonists, irrespective of what was produced by themselves. "The failure of an experiment, conducted with so much care, by men of the highest intelligence, with means so large, supported by the government and the nation, established on a scale so extensive, and persevered in for so many years, among a people remarkable for business habits, agricultural skill, and industry, is a valuable lesson."

As for the sturdy rogues and vagabonds, who were provided for in similar penal colonies, — in spite of the fact that 'means of coercion were used, which would not be lawful in Scotland,' — it was estimated that it required fifteen of them to perform the field work of one good day labourer.²

In emphasising the influence of self-interest upon the efficiency of labour, I must not be understood to use the

¹ *History of the Scotch Poor Law*, by Sir George Nicholls, Vol. I., p. 272.

² See also Bancroft's *History of the United States*, Ch. V., on Slavery.

term in a narrow, technical sense. The exact demarcation of the scientific frontier between self-regarding and altruistic motives is a problem in metaphysical ethics that has not yet been, and probably never will be, determined. Whether the labourer who gives the greater part of his wages to his wife and family, instead of spending them on drink or tobacco, promotes their economic interests more than his own is, from the present standpoint, a purely verbal question. Much ingenious criticism has been directed against Adam Smith, which would never have been written if his words had been construed according to the plain meaning of the general argument of his whole work, instead of being tested by rigid and arbitrary definitions.

At the same time it would be equally futile and misleading to assume that because there is a debatable margin, there is no real difference between the conscious promotion of private and of public interest. The difference is both real and palpable, whether or not the final result may be the same. For my own part, in the main, I follow the older writers in thinking that the great majority of people will do most good to the public by minding their own business.

I cannot agree with Professor Marshall, when he writes: "Thus the struggle for existence causes, in the long run, those races of men to survive in which the individual is most willing to sacrifice himself for the benefit of his environment; and which are, consequently, the best adapted collectively to make use of this environment."¹ There is much more truth in my opinion in the frank avowal of Sir James Steuart: "It might, perhaps, be expected that in treating of politics, I shall have brought in public spirit, etc., as a principle of action; whereas, all I require with respect to this principle, is merely a restraint from it; and even this is perhaps too much to be taken for granted. Were public spirit instead of private utility to become the

¹ *Principles*, p. 302.

spring of action in the individuals of a well-governed State, I apprehend it would spoil all. Let me explain myself.”¹

¹ For the explanation, the reader must refer to our author himself, who is still, in many ways, as fresh and suggestive as Adam Smith. It is, perhaps, hardly necessary to say that the principle needs, and later on will receive, qualification. But as regards the efficiency of labour of all kinds, the meaning is plain. To guard, however, against the injustice of mutilated quotation, one other sentence may be added: “Public spirit, in my way of treating the subject, is as superfluous in the governed as it ought to be all powerful in the statesman; at least, if it is not altogether superfluous, it is fully as much so as miracles are in a religion once fully established . . . Were miracles wrought every day, the laws of nature would no longer be laws; and were every one to act for the public and to neglect himself, the statesman would be bewildered, and the supposition is ridiculous.”

CHAPTER VI.

CAPITAL.

§ 1. *Definition of Capital, and first of Revenue Capital.* There is probably no term in economics which has given rise to so much controversy as capital, and in the limits of this chapter it will only be possible to indicate the main points in dispute, and their bearing upon fundamental questions. As usual, the historical aspect of the subject has been treated most fully by German writers.¹ The word capital is connected with *caput*, and, in mediæval Latin, we read constantly of the *capitalis pars debiti*, i.e., the principal sum as distinct from the interest. Thus, originally, the term seems to have been confined to loans of money. As the church forbade the lending of money for interest, or usury, as it was then called, and as this moral prohibition was generally given effect to by the law, all sorts of devices were resorted to in order to disguise the real nature of a loan. A thing was nominally bought by the borrower, to be sold back after a time at a lower price to the lender (a dry bargain, as it was termed, the difference really being interest), and, gradually, exceptions were admitted on the ground of wear and tear of the thing lent, or of some indirect loss to the lender.²

¹ Compare the masterly introduction of Knies to his work on *Money and Credit* (*Geld und Credit*); *Kapital und Kapital-Zins*, by Böhm-Bawerk, translated by R. Smart; and the article on *Capital*, in Schönberg's *Handbuch*. In this chapter I have reproduced part of my article on *Capital* in Palgrave's *Dictionary*.

² See Cunningham's *Growth of English Industry and Commerce*, pp. 236-40 for an account of *damnum emergens*, *lucrum cessans*, and *periculum sortis*. Also my art. *Usury*, in *Encyclop. Brit.* The point is discussed more fully below. Bk. II., Ch. XIII., § 3. The excellent account of *Canon Law* by Professor Ashley, *Economic History*, Vol. II., appeared too late for quotation.

The elaborate theory of interest propounded by Dr. Böhm-Bawerk is essentially a development of the dry bargain. "What, then, are the capitalists as regards the community? In a word, they are merchants who have present goods to sell. They are the fortunate possessors of a stock of goods which they do not require for the personal needs of the moment. They exchange this stock, therefore, into future goods of some form or another, and allow them to ripen in their hands again, into present goods possessing full value." That is to say, present goods are always worth more than future goods, and the difference is interest. In England, before the time of the Tudors, it had become generally recognised by merchants and legislators that it was impossible to distinguish between lending money itself and lending the things which had a money value. Thus, in the natural course of historical development, the term capital received a wider meaning. Accordingly, later on, we find Turgot, as Knies points out, expressly saying that capital consists of accumulated values (*valeurs accumulées*), and that it makes no difference whether the accumulations consist of precious metals or of other things. Turgot states, also, that a man can live on capital, or, rather, on the interest of capital, just as well as from personal labour, or from funds derived from possession of lands. In this way, capital comes to be considered primarily as a source of profit. This historical usage of the term is still found implied in ordinary thought, and a Socratic inquiry in the modern mercantile world would, probably, give as a first-fruit that capital is *wealth which yields a revenue*.

§ 2. *Production Capital*. It is quite obvious, however, as the writers on canon law, founding upon a doctrine of Aristotle, were so fond of pointing out, that the precious metals are in themselves barren — *nummus nummum parere non potest* — and it is almost as obvious that any form of hoarded wealth is equally barren; that is to say, unless it is actively employed, so as to produce more

wealth. In the earlier stages of agricultural development, for example, it is quite common to find that the stock is let with the land (and the custom still survives in the *métayer* system), but unless the stock were used for productive purposes, it could not possibly yield a revenue. It may further be noticed that, although one private person may lend to another capital which may be used unproductively (*e.g.*, money lent on mortgage), and the interest of which may still be paid punctually, it would be impossible for a whole nation (apart from lending to foreigners) to subsist on this barren use of capital. So much has this consideration impressed itself upon economists that many of them, especially English writers, have given as the root idea of capital: *that part of wealth set aside for future production*. This, for instance, is Mill's view to the exclusion of the older notion of revenue simply. Mill, indeed, makes the idea of production fundamental, even in the case of individuals, and would only include in a man's capital that part of his wealth intended to be used in producing more wealth.

A little reflection, however, will show that either the meaning of production must be strained, or else the definition of capital thus obtained will be much more narrow than in the popular acceptance. In estimating, for example, the accumulations of capital in the United Kingdom in recent years, Mr. Giffen¹ takes into account the movables, furniture, pictures, etc., in private houses, and roughly surmises that they amount to about half the value of the houses themselves; and, although in a certain sense the term "productive" might be stretched to cover houses, it could hardly be made to cover pictures and ornaments. As the result of this line of criticism, some writers (notably Knies) have made the fundamental idea in capital to be "wealth intended directly, or indirectly, to satisfy future needs." If a fair allowance be made for Adam Smith's

¹ *Essays on Finance*, Vol. I., and *Growth of Capital*. See *infra*, Ch. XI.

want of scientific and technical phraseology, his views on the fundamental nature of capital (or stock, as he prefers to call it) come very near to this exposition. For Adam Smith carefully distinguishes between the wealth that is *immediately* consumed and the stock that is *reserved* or set aside out of a possible surplus. It is instructive to note that Adam Smith, in order to emphasise the distinction between income and its source, or, in other words, between immediate consumption and capital, gives a very wide and unusual meaning to the term *immediate*. "A stock of clothes may last several years; a stock of furniture half a century or a century; but a stock of houses, well built and properly taken care of, may last many centuries. Though the period of their total consumption, however, is more distant, they are still as really a stock reserved for *immediate* consumption as either clothes or household furniture."

§ 3. *Consumption Capital.* In spite of the authority of Adam Smith, however, it may be questioned if it is advisable to give to the term "immediate" such a paradoxical interpretation, and to exclude houses and the like from the capital of a country. A man, it may be argued, might well choose between living up to his income, and saving so much a year in order to build a house for himself, and when once the house was built it would appear to form a part of the capital not only of the individual but of the nation. In fact, on analysis, it seems that we ought to distinguish between immediate (in the more usual sense of the term) and deferred consumption. Even from this point of view, however, it is impossible to take the term "immediate" strictly, and it seems best to construe it relatively to the kind of income. The immediate consumption of a labourer earning weekly wages might be embraced within the week, whilst in the case of a high-salaried official a year might be taken as the unit, and in the case of a great nation spending money on armaments, etc., the term might be extended for some years. But

even in this last example there is still a plain difference between building forts, or strategic railways, which are supposed to last for centuries, and providing for present wants by the personal equipment of soldiers. Practically it is, of course, always difficult to know how much may be fairly charged to capital account, and how much ought to be reckoned as part of immediate consumption. Logically, however, the distinction seems clear enough, and it has given rise to that description of capital called by the Germans, especially, *consumption capital*. The principal difficulty in this conception of capital is that, in the language of one of Mill's "four fundamental propositions on capital," all capital is consumed, which, in the sense that nothing lasts forever, is obviously true. Yet, even the school-boy who decides between a tin-whistle and a penny pie, knows that the rate of consumption in the latter case is infinitely quicker than in the former, and it may be said that if he eats the tart he is only an unproductive consumer, whilst if he buys the whistle he is a small owner of consumption capital. And, in fact, Mill's object in this proposition appears to have been rather to emphasise the distinction between hoarding, in which case the wealth is not productively consumed, and saving in which the wealth is also used as productive capital.

§ 4. *Root-idea of Capital.* So far, then, the result of the investigation of the connotation of the term capital appears to be that there are three species of capital, in each of which a different quality is emphasised accordingly as we consider (1) the yield of a revenue, (2) the production of more wealth, (3) the reservation of means for future enjoyment. It remains, then, to consider whether there is not some root-idea from which these three branches spring. The line of thought suggested by Adam Smith and developed by Knies is found to lead to this result: *Capital is wealth set aside for the satisfaction, —directly or indirectly—of future needs.* This satisfaction may be obtained by the individual by lending his

wealth at "usury," — "usury of money, usury of victuals, usury of anything that is lent upon usury," — or by reserving means for future production, as in the case of the husbandman with his corn or cattle, or by laying up for himself a treasure which will be a delight for many days.

In the different departments of political economy the stress is laid in general on one of these three characteristics to the exclusion of the other two. In the department of production, for example, as the very name implies, capital is regarded almost entirely as one of the principal agents in production, as sustaining, or auxiliary to, labour. Logically, it is not necessary to consider at this stage how the product is divided, or even that it is intended for future or immediate consumption. But, in the departments of distribution and exchange, the characteristic of yielding profit or revenue is fundamental, whilst in taxation several questions of importance spring from the distinction involved in consumption capital.

§ 5. *Disputed Questions regarding Capital.* The principal points of fundamental importance in the qualitative definition have now been considered, but there are several minor questions which have given rise to much controversy.

I. *Is all capital the result of labour, and ought we to exclude the forces and free gifts of nature?* The answer, as in all questions of definition, must depend purely on the convenience of the classification for the subject or problem in hand. In the department of production it is often necessary to contrast capital, in the sense of accumulations due to labour (*festgeronnene Arbeit-Zeit* as the German socialists phrase it), and "the natural and indestructible powers of the soil" of Ricardo, as illustrated, for example (that no exception may be taken to the language), in the advantages of situation. In the department of distribution, again, stress is often laid on the limitation of natural sources of supply, and the consequent unearned increment, whilst the ordinary forms of capital, with sufficient labour,

are assumed to be capable of indefinite extension at an ordinary rate of profit.

On the other hand, however, it is extremely difficult practically to draw the line between the gifts of nature and the results of labour, and between earned and unearned increments. Even sheep farms in mountain districts require a certain amount of surface-drainage, fencing, etc., and when once the necessary labour has been bestowed, it is hard to tell how much is due to man, and how much to nature. If we consider the question from the national point of view, and take, as is natural with a nation, long periods, the labour involved in what is apparently the mere appropriation or first occupancy of the natural sources will be found to be considerable. Compare, for example, the condition of England before the invasion of the Romans, and during the Roman occupation, or mediæval England with the England of to-day. Rivers have been diverted, extensive forests cleared, swamps and marshes drained, and natural harbours improved and protected. Thus, even in production, it would not seem unreasonable to include these so-called natural sources, in order to emphasise the fact that they can only be made available, as with other forms of capital, by the labour and ingenuity of man. And although this admission is made, it would still be possible to discuss Adam Smith's favourite position that in some things, notably agriculture, nature labours with man to a greater extent than in others, *e.g.*, the manufacture of scientific instruments of great delicacy. It may be observed that in estimates of national capital, such as that made by Mr. Giffen, not only is land included, but it stands first on the list in order of importance. It is obvious also that the capital value of land would certainly include from the practical standpoint, the minerals, etc., not yet extracted, as well as the value due merely to such a quality as situation. Logically, any difficulty may be technically overcome by speaking (with Held) of the "labour of appropriation,"

especially if we take into account the contribution made by the State as such to the organisation and security of labour.

II. A second controversy has arisen regarding the point on which Mill lays such stress, namely: *Does the distinction between capital and non-capital depend on the intention of the capitalist, or, in other words, the owner of the potential capital?* If the answer be in the affirmative, we are confronted with the difficulty from the point of view of the individual, that the same thing would at one time — even on the same day — be considered capital, and at another non-capital. Thus, Professor Marshall, in his earlier work, argued that a doctor's carriage, when used on professional visits would be capital, but when used for pleasure merely would not be capital.¹ This difficulty, however, would be overcome by admitting the species of consumption capital. Again, there are certain forms of wealth, — machinery, tools, instruments, etc., — which, from their nature can only be considered as capital, whilst other forms (*e.g.*, seed-corn in a famine) may or may not be immediately consumed according to the intention of the owners. After all, however, the difficulty is only one of degree, and, as in other cases, we may leave open a debatable margin in the case of the individual, whilst with a nation it would be easy to determine roughly by means of statistics between the amount of goods or wares immediately consumed, and the amount on the average reserved directly or indirectly for the future. On the whole it may be doubted if it is possible or desirable to arrive at the *intention* except by arguing from the accomplished fact, or from the nature of the things, and the only use of the discussion is to emphasise again the fundamental distinction between the satisfaction of immediate and future needs.

III. A third question has been much debated, which is, however, more properly dealt with under wealth,² namely,

¹ Compare, however, the later treatment by the same writer in the *Principles of Economics*.

² See Bk. I., Chs. I. and III.

Does capital include what are called immaterial as distinct from material utilities? The answer is similar to that given to the question as to the connection between labour and capital, and must depend on the convenience of emphasising, or not, certain points of analogy and contrast. On the one side the "fixed skill" of a workman is, in many respects, similar to the nice adjustment of the wheels of a machine, and resembles still more closely the trained qualities of the domestic animals. The objection that the skill is attached to the man may be answered, as by Mill, that a coal mine is also attached to a place, or, still better, by the analogy that in matters of contract the technical skill may be considered as separated from the other qualities which go to make up the personality of the individual. On the other hand, however, it is often necessary to contrast the worker with the work done, and the wealth produced with the people for whom it is produced. By some writers (*e.g.*, List) the acquired skill of a people, the greater part of which has been inherited from the past, and is due to the labour, and saving, and self-restraint of past generations, is reckoned as the most important element in the national capital, and both in the department of production and in distribution the contribution of this "social capital" to the annual produce must be carefully considered. The principal reason why a civilised nation can so soon recover from the effects of a devastating war is to be found in the acquired skill of the inhabitants, and the same remark applies to the rapid development of new colonies. Thus Adam Smith might well include the skill of the workers in a nation in its fixed capital. If we appeal to popular usage, however, the contrast appears to have overcome the analogy. On the other hand, from the scientific standpoint, the analogy seems to have overcome the contrast, and any ambiguity, or confusion, may be avoided by using a qualifying adjective such as personal or immaterial.¹

Besides the skill of the inhabitants of a country there

¹ See Marshall's *Principles*, Bk. II., Ch. IV., p. 3.

are other so-called immaterial utilities which have sometimes been included in capital, and sometimes excluded. The precious metals which form the material money of a country have always been included under its capital, and the question arises whether, if an efficient substitute can be found, this substitute is not equally capital. There can be no doubt that, without the banking organisation of the United Kingdom, the business even of producing wealth could not be carried on, at any rate not to the same extent. Banking is an essential part of natural division of labour, and bank notes and other forms of representative money are quite as efficient agents of production as the precious metals themselves. These questions, however, can only be fully discussed at a later stage.¹ From the individual point of view such immaterial utilities as the good-will of a business, copyrights, patents, and the like, would fall under capital unless the material characteristic is considered essential.

§ 6. *Fixed and Circulating Capital.*— Besides the three species of capital already discussed, there are other divisions which have found a place in the text-books. The most important is the distinction between *fixed* and *circulating* capital. Adam Smith took the terms, apparently, in their literal sense, and considered the essence of the difference to lie in the fact whether or not the capital changed hands or circulated in order to obtain a revenue. "If it (*i.e.*, stock) is employed in procuring future profit (as distinct from present enjoyment), it must procure this profit either by staying with him or by going from him. In the one case it is a *fixed*, in the other it is a *circulating*, capital."² Mill, on the other hand, and most recent English economists, define circulating capital as that which performs the whole of its function in a single use, whilst fixed capital can be used more than once in the same way. Of course, in particular cases, it would be difficult to draw the line accurately; but the broad distinction is quite obvious.

¹ Bk. III.

² *Wealth of Nations*, Bk. II., Ch. I.

Compare and contrast, for example, machinery as the type of fixed, with food supplies and raw materials of manufacture as the types of circulating, capital.

Very often by English writers circulating is used as equivalent to wage capital. Thus under the title of the conversion of circulating into fixed capital Mill really discusses the effects of the introduction of machinery upon the condition of the working classes. The terms sustaining and auxiliary, floating and sunk, specialised and non-specialised, point to the same kind of distinction, under different aspects, as that conveyed by the terms fixed and circulating; and they have the advantage of being more free from ambiguity and question-begging. At a subsequent stage some important practical consequences will be seen to follow from the specialisation or fixation of capital, especially in connection with the effects of machinery on wages.

§ 7. *Examination of Mill's Views on the Relations of Labour and Capital in Production.* It may be thought by those who have been taught to regard capital, in the narrow sense of material production capital, that the extension of the term as advocated in the preceding sections is uncalled for, and likely to lead to confusion; and, in support of this opinion, they may justly urge that Mill and other writers who adopt the more restricted meaning really discuss all the problems arising from the other forms of so-called capital under different headings, such as the accumulation of capital, the efficiency of industrial agents, the organisation of industry, and the influence of credit. Unquestionably many of the complicated controversies which have arisen in connection with the definition of capital, are, to a large extent, verbal, and do not involve corresponding differences on matters of fact, and to narrow a definition is not the same thing as to narrow a subject. It would, however, be a great mistake to suppose that those who have confined the term capital to 'material wealth' intended to be devoted to the production of more

material 'wealth' have thereby escaped all confusion. It may, indeed, be doubted, if, in the whole range of economic literature, there is anything to equal the confusion, both in thought and expression, of Mill's four fundamental propositions on capital. The strange combination of axiom and paradox, of error exposed and truth suppressed, of practical wisdom and unreal hypothesis, has exercised the ingenuity of all subsequent writers. The principal cause of confusion is due to the fact, that, whilst apparently discussing problems in production, Mill really introduces questions of distribution, and, in doing so, takes for granted that celebrated wages-fund theory which itself is now generally admitted to be partly incomplete and partly erroneous. I shall not attempt to follow Mill in his anticipation of the theory of wages, but I shall endeavour to extract from his propositions those portions which bear upon production, and may still be applied to prevailing popular fallacies. The reaction against the wages-fund theory, and all its consequences, has tended to bring into undeserved disrepute some of the most valuable teaching of older writers. In examining these propositions capital will, of course, be taken in Mill's sense—*i.e.*, material production capital.

I. *Industry is limited by capital.* It has already been explained that capital is an essential agent of production even in the earliest stages of industrial society, and in the later it is still more obviously a necessary element. It follows that one limit to the augmentation of industry is given by the amount of capital which a nation can command. The reality of this limit is at once seen by glancing at the past and present conditions of various nations. Old countries, by bad government, excessive taxation, extravagant luxury, and similar causes, have, at the same time, lessened their capital and their industry; and new countries have endeavoured to advance beyond the limit imposed by the capital they can acquire or maintain, and their industry has suffered accordingly.

It is equally true that any particular industry is limited by the capital devoted to it: without capital land cannot be cultivated, mines cannot be worked, factories cannot be built.

Yet, in spite of these obvious truths, it long continued to be believed that laws and governments without creating capital could create industry. Particular examples of this fallacy are seen in the demand that government should always provide work for the unemployed, and in the grosser forms of the argument for protection to native industry. The English Poor Law, before the Amendment Act, and the English protective system, before the era of free trade, both rested on the fallacy against which this proposition is directed. At the present time there is an ever-increasing demand for governmental assistance: to establish peasant proprietors, to develop fisheries, to extend railways, and to promote all sorts of industrial undertakings. In dealing with practical problems of this kind there are, no doubt, many other considerations to be weighed and balanced, but even the richest country must remember that industry is limited by capital.

It is true that the proposition requires, as it receives from Mill, important qualifications. A government may indirectly, at any rate, increase the efficiency of labour, and thus enable the same capital to do more work, as, for example, by education, and sanitary and social legislation of various kinds. Again, capital is only one of the limits to industry, and it often happens that industry falls short of this particular limit. Sometimes there is a deficiency of labour, and a government by attracting immigrants may give greater employment to capital. Sometimes a government may break down superstitions, prejudices, and customs which prevent the progress of industry, as has occurred, for example, in India, and still more recently in Japan.

To a certain extent, indeed, government can actually create capital by laying taxes upon expenditure, and

devoting the proceeds to production. There is, of course, the danger of checking accumulation, and of imposing restraints upon trade, and there are other difficulties connected with governmental management; but such a transference, or conversion, of non-capital into capital is always theoretically possible and often practicable.¹

But when all is said it still remains true that one of the real limits to industry is capital, and every nation which attempts to over-step the limit will receive a rude shock. The theory finds abundant illustration from commercial crises, and from the transference of industrial supremacy.

II. *Capital is the result of saving.* As Mill himself points out, the use of the term saving is open to objection, for it naturally suggests privation and abstinence, whilst all that is meant is, that if capital is to increase there must be an excess of production over consumption. This is the 'really favorable balance' which as Adam Smith observed, 'necessarily occasions the prosperity, or decay, of every nation.'²

III. *Capital is consumed.* This proposition is complementary to the last. It explains further what is the nature of the saving process, and the distinction between saving and hoarding. The fallacy against which both are aimed is expressed in various modes: that the unproductive expenditure of the rich is necessary to the employment of the poor; that saving only benefits oneself whilst spending benefits others; that saving capital is the same as hoarding money, whilst the diffusion of money increases industry. If, however, it is admitted that capital is consumed, and money is regarded simply as an intermediary, it is obvious that the saving of capital is tantamount to transferring the immediate consumption of goods to others, with a concomitant increase in the annual consumable

¹ Compare Mill's treatment of the tendency of profits to a minimum and its consequences for a fuller statement of this position. Bk. IV., Chs. V., VI., VII.

² Bk. IV., Ch. III. See *infra*, Ch. XI.

produce. 'Saving, in short, enriches, and spending impoverishes, the community, along with the individual.'

Mill calls attention in connection with this proposition to the erroneous idea that most people entertain regarding the transmission and inheritance of capital. They imagine that the greater part of a nation's capital was accumulated in the past, and that any given year only produces what is added to the previous amount.

The fact he asserts is far otherwise. The greater part in value of the wealth now existing in England has been produced by human hands within the last twelve months; a very small proportion was in existence ten years ago; and scarcely anything in the nature of productive capital has come down to us from a remote period. The land subsists, and the land is almost the only thing that subsists. Everything which is produced perishes, and most things very quickly. Capital is kept in existence, from age to age, not by preservation, but by perpetual reproduction. The growth of capital is similar to the growth of population, the population increases, though not one person of those composing it was alive until a very recent date. It will be seen from these sentences which with some abbreviation are taken directly from Mill¹ that he by no means exaggerates the influence and importance of capital as compared with labour in production. On the contrary, at the outset, he is careful to state that the expression applying capital is metaphorical, that what is really applied is labour, capital being an indispensable condition.²

IV. *Demand for commodities is not demand for labour.* Unlike the first three, this proposition instead of appearing to be obviously true, seems rather obviously false. To most people the position of Sir James Steuart will com-

¹ Bk. I., Ch. V., § 6.

² The perishable nature of capital, and the need for continuous reproduction, has been well brought out, with recent and interesting statistics, by Mr. Atkinson, *The Distribution of Products*.

mend itself as much more reasonable. "Reciprocal wants excite to labour, and the augmentation of wants will require an augmentation of free hands." An appeal to facts shows still more clearly that Mill's proposition is, at any rate, extremely paradoxical. Every revival of trade may be said to begin with an increase in the demand for some commodities; this causes an increase in the demand for labour, and this again leads to a further increase in demand for other things, and ultimately for other kinds of labour. Thus demand appears to be the main-spring of industry. I shall not attempt to decide the question, on which already so much has been written that agreement seems impossible, — the question, namely, what Mill himself did and did not mean in this singular statement.¹ I shall content myself with indicating those portions of his argument which enforce the preceding propositions. First then, he assumes, as in the first proposition, that the capital of a country — available and adapted for production — at any time is limited, and that industry is limited by capital. Next he assumes that consumers or demanders of commodities do not advance the capital beforehand, or, in other words, that they do not convert their non-capital into capital. It follows that demand can only determine the direction and not the amount of the application of capital, and that an increase in demand at one point (as in a change of fashion) implies a corresponding diminution at another. Mill allows that if the demand happens to be of such a kind as to increase capital, it would also increase

¹ His introductory sentences make the very meaning of demand doubtful. "Suppose that there is a *demand* for velvet, a *fund* ready to be laid out in buying velvet but no *capital* to establish the manufacture. It is of no consequence how great the *demand* may be, etc." I do not see how this passage can be made self-consistent, and still less how it can be reconciled with the following general description of capital (Bk. I., Ch. IV., p. 1). "What, then, is his capital? Precisely that part of his possessions, whatever it is, which is to constitute the *fund* for carrying on fresh production. It is of no consequence that a part, or even the whole of it, is in a form in which it cannot directly supply the wants of labourers."

the demand for labour; as, for example, if a farmer were to feed and house another labourer instead of a race-horse. But he appears to forget that industry may not come up to the limit imposed by capital, that capital may be lying idle, and that in modern societies this capital is not in the hands of consumers, but is lent by them directly, or indirectly, to bankers and bill-brokers, and is thus ready to be advanced according to the demands of trade.¹

A general review of these propositions seems to show that (apart from questions of wages and distribution which cannot advantageously be discussed so early) they are intended to enforce two general positions: 1°, that capital is one essential condition of production; without instruments and means of support whilst the work is in progress production cannot go on: 2°, that capital involves for its increase the postponement of present consumption. These positions have been proved to be useful in the exposure of certain crude fallacies, as, for example, in Bastiat's admirable "petition of the candle-makers and others against the use of windows," with the view of "making work" in the production of artificial light.²

In conclusion it must be observed that it is impossible to thoroughly discuss such a comprehensive term as capital without travelling over every department of economics.³

¹ See Bagehot's *Postulates*, especially II.: *On the Transferability of Capital*.

² For recent criticisms on Mill's propositions on capital the reader may consult Sidgwick's *Principles*, Bk. I., Ch. V. (note); Marshall's *Principles*, Bk. VI., Ch. II. (note). An excellent criticism, especially showing the effect of demand as a stimulus, is that of Cournot, *Revue Sommaire*, pp. 216-221. Compare also Adam Smith, Bk. IV., Ch. II., the passage commencing: "The general industry of the society never can exceed what the capital of the society can employ. . . . No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction into which it might not otherwise have gone, and it is by no means certain that this artificial direction is likely to be more advantageous to the society than that into which it would have gone of its own accord."

³ In illustration of this remark compare the voluminous works of Karl Marx and E. von Böhm-Bawerk on *Capital*.

CHAPTER VII.

DIVISION OF LABOUR.

§ 1. *Meaning of Division of Labour.* The expression *division of labour* refers to several distinct but closely allied conceptions. Dugald Stewart proposed as a substitute *economy of labour*, Lord Lauderdale *the operation of capital in superseding labour*, whilst Mill adopted the opinion, supposed to be due to Wakefield, that division of labour is only a single and over-rated department of the mere fundamental principle of *co-operation or combination of labour*. The authority of Adam Smith, however, has given division of labour a permanent place in economic nomenclature, and on the whole it seems to suggest the principal ideas intended better than the substitutes that have been proposed. It should be observed that although Adam Smith begins with an example from a "very trifling manufacture, but one in which the division of labour has been very often taken notice of — namely, the trade of the pin-maker," he proceeds to give a breadth to the principle which ought to have satisfied the most exacting editor.¹ It is applied, for example, to philosophy and speculation, and we are told that the quantity of science is considerably increased by it.² Here, perhaps, the application may appear to range beyond the proper limits of economic inquiry. But no such objection can be raised to the

¹ The criticism alluded to by Mill is found in a note in Wakefield's edition of Adam Smith, Vol. I., p. 26.

² In recent times speculation in various forms of science has extended more rapidly than the necessary exchange of ideas, with great intellectual waste in consequence.

eloquent passage¹ in which the effects of the principle upon the general condition of the labouring classes are described. "Observe the accommodation of the most common artificer or day-labourer in a civilised and thriving country, and you will observe that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation exceeds all computation. The woollen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers besides must have been employed in transporting the materials from some of those workmen to others who often live in a very distant part of the country. How much commerce and navigation, in particular how many ship-builders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs made use of by the dyer, which often come from the remotest corners of the world. . . . Were we to examine in the same manner all the different parts of his dress and household furniture, the coarse linen shirt which he wears next his skin, the shoes which cover his feet, the bed which he lies on, and all the different parts which compose it, the kitchen grate at which he prepares his victuals, the coals which he makes use of for that purpose, dug from the bowels of the earth and brought to him perhaps by a long sea and a long land carriage, all the other utensils of his kitchen, all the furniture of his table, the

¹ Marx points out that this passage is a close imitation of Mandeville's Remarks in his Fable of the Bees (edit. 1714), *Capital* (edit. Sonnenschein), p. 348, note. The treatment by Marx in *Capital*, Part IV. of Division of Labour and allied topics, is both learned and exhaustive, and is well worth reading. There is also much less of the rhetorical partisanship that is so prominent in other parts of his work.

knives and forks, the earthen or pewter plates upon which he serves up and divides his victuals, the different hands employed in preparing his bread and beer, the glass window which lets in the heat and the light and keeps out the wind and the rain, with all the knowledge and art requisite for preparing that beautiful and happy invention without which these northern parts of the world could never have afforded a very comfortable habitation, together with the tools of all the different workmen employed in producing these different conveniences; if we examine, I say, all these things and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and *co-operation* of many thousands, the very meanest person in a civilised country could not be provided even according to what we very falsely imagine the easy and simple manner in what he is commonly accommodated."

I have transcribed the passage at length partly to show that Adam Smith used division of labour with a very wide meaning, and partly because constant familiarity with the principle and its application make us apt to forget its fundamental importance.

It is obvious that division of labour must be associated with a corresponding division or application of capital, and in modern societies, as regards material wealth, we have to consider especially the effects of complicated machinery.

On analysis division of labour, taken in the broad sense just indicated, will be found to include, *first*, (*a*) separation of employments, and (*b*) separation of processes within an employment;¹ and *secondly*, (*a*) combination as an essential condition of the separation, and thus (*b*) organisation and exchange. It will be convenient, as far as possible, to treat these conceptions separately.

§ 2. *Separation of Employments.* The separation of employments is one of the most characteristic marks of

¹ Some writers confine the term to this very narrow meaning.

economic progress. "All things," wrote Plato,¹ "will be produced in superior quantity and quality and with greater ease, when each man works at a single occupation in accordance with his natural gifts, and at the right moment, without meddling with anything else." He accordingly maintains that the numbers of a state ought to be such as to admit of an adequate separation of employments. Even at the present time, in Scotland, there are villages which cannot support a baker or butcher,² and owing to the distance from towns cannot import their bread and meat; still less can they provide themselves with other commodities which in towns are thought necessary, such as coal, gas, and water in the houses. We find the general principle, however, most strongly marked by taking stages in the development of a progressive society.³ Compare, for example, the Domesday Survey of England with the last Census. In the earlier period the whole country was studded with manors which were practically villages in serfdom under an over-lord; these villages were in the main self-supporting, and the inhabitants were for the most part engaged in agriculture or in the simple industries immediately subsidiary to it. Acorns, for the food of pigs, were probably of more importance in the national wealth than all the minerals in the country. The change to the present condition of industry is due to the accumulated effects of causes operating through centuries,⁴ and the rapid progress of the last hundred years ought not to make us forget the advances made in former times. The mediæval period,⁵

¹ *Republic*, Bk. I.

² It is not so long since every man was his own candlestick-maker, the candlestick being a piece of twisted iron, and the candle a piece of resinous wood.

³ See an example from Saxon times in Cunningham's *Growth of Industry and Commerce*, Vol. I., p. 128.

⁴ Cf. Adam Smith, Bk. IV., Ch. IV. 'How the commerce of the Towns contributed to the Improvement of the Country.'

⁵ For economic purposes the mediæval period may be said to end with the fifteenth century.

which is still often spoken of as an age of darkness and stagnation, was, in truth, an age of enthusiasm and upheaval; in no department is this more plainly marked than in the economic structure of society; and of economic progress the most simple and obvious test is the increase in the separation of employments.

§ 3. *Specialisation of Skill.* The separation of employments, and of processes within an employment, involves, in the first place, a specialisation of skill and of auxiliary capital. An examination of this characteristic affords an opportunity for a statement of the advantages of division of labour in the narrow sense of the term.

I. *The increased dexterity* of the workmen, especially when associated with machinery, is of importance, not only as regards quantity, but quality.¹ Babbage, in his classical work on the *Economy of Machines and Manufactures*, gives many examples of things too delicate to be done by the unaided hand. Professor Marshall has recently called attention to the importance of the interchangeability of parts in machines, by which repairs can be effected at once without sending the whole machine to the maker.² The increase of dexterity, as Dugald Stewart observed, is not so great as might be expected in effecting an increase in the quantity produced, except so far as labour is assisted by auxiliary capital. After a certain point is reached there is a diminishing return to the dexterity of the individual, and it is more advantageous to employ an additional hand.

In the higher forms of practical science, as for example chemistry, electricity, and engineering, division of labour appears to be a necessary condition of the requisite skill.

II. The *classification* of labour according to its *capacity*, and the employment of the auxiliary capital to the full extent of its working power, are advantages which may be observed alike in a single factory, and in the whole indus-

¹ Dugald Stewart points out that Xenophon considered improvement in *quality* the chief advantage of division of labour.

² Cf. *Effects of Machinery*, p. 89.

trial system of a country. Thus the development during the present century of self-acting machinery in the cotton, flax, woollen, lace, and silk manufactures has diminished the proportion of males above eighteen compared with women and children. The adult males thus set at liberty have been absorbed largely in mining, foundries, and the transport services.¹ On the whole, as already observed, a greater degree of skill, both general and special, is required under this appropriate classification.

III. The *saving of time* in keeping to one kind of work, though liable to be exaggerated as regards the individual, has several points of advantage. There is less time required for learning one trade or occupation or process, and there is no waste in going from one employment or place to another. One of the principal advantages of the Post-office is in the saving of time in delivering and collecting letters.

In one sense the saving of time involved in division of labour is of fundamental importance, as without it some things could never be accomplished within the time in which they are required. This is well put by Bastiat, who says that a workman now consumes in one day more articles than in an isolated condition he could make in one thousand years.

IV. The invention of *new machines* and *processes* is stimulated by the division of labour. It is true that many improvements of a fundamental character have been due to "philosophers or men of speculation whose trade it is not to do anything, but to observe everything, and who upon that account are often capable of combining together the powers of the most distant and dissimilar objects." But when once a radical change has been introduced for its full development, it requires a continuous succession of small increments of invention, and these are most likely to be made by those constantly engaged in particular processes. No complaint indeed is more common than that the

¹ See *Effects of Machinery on Wages*, p. 80.

real inventor or the first discoverer of the creative idea, rarely obtains any adequate reward, because his patent is at once improved upon and displaced by others. It seldom happens in material production that any real improvement is lost,¹ and in consequence the cumulative effects of these little increments become in the course of time of vast magnitude and complexity. "One might almost conjecture," says Mr. Seeböhm, after a graphic description of the ancient tribal house, "that as the tabernacle was the type which grew into Solomon's temple, so the tribal house built of green timber and wattle, with its high nave and lower aisles, when imitated in stone grew into the Gothic cathedral. Certainly the Gothic cathedral simplified and reduced in size and materials to a rough and rapidly erected structure of green timber and wattle would give no bad idea of the tribal house of Wales and Ireland."² Another excellent example is furnished by the improvements gradually introduced in the mediæval period into the houses of London.³ The growth of London is a striking instance of the cumulative effects of small increments in the course of centuries. In the reign of Stephen the vast majority of houses were built of wood and thatched with straw. Fitz-Alwyne's assize in 1189 may be considered as the first building Act. It provided that partition walls should be of stone. The houses had still only two storeys, and pent-houses were to project high enough for people to ride underneath. There were very few, if any, chimneys. Fire was much dreaded, and tubs of water were stationed at the house doors, and the bedells were furnished with hooks to rake down the burning houses. The "dawber" who filled up the timber framework with mud and straw occupied an important place in the division of labour of the time. As late as the year 1300, persons living in the city were al-

¹ There are, however, important cases on record to the contrary. See Mitchell's *Past in the Present*.

² *English Village Community*, p. 241.

³ See *Liber Albus*, Introduction.

lowed to keep pigs within their houses, and four men were appointed to kill the loose ones. Soon afterwards this privilege of keeping pigs in London houses was confined to bakers.

The progress of ship-building and of the art of navigation illustrates almost as well as the growth of a great city the cumulative effects of increments of invention. Take, for example, the following description,¹ written about 1200, of the origin of the mariner's compass: "This (polar) star does not move. The seamen have an art which cannot deceive by virtue of the *manete*, an ill-looking brownish stone, to which iron spontaneously adheres. They search for the right point, and when they have touched a needle with it and fixed it on a bit of straw, they lay it on the water and the straw keeps it afloat. Then the point infallibly turns to the star, and when the night is dark and gloomy and neither star nor moon is visible, they set a light beside the needle and they can be assured that the star is opposite to the point; and thereby the mariner is directed in his course. This is an art which cannot deceive." Equally instructive is the gradual development of the boat into the three-decker and ironclad. The Saxon ships at the end of the eighth century were scarcely more than a large boat: they had one mast with one large sail, and could probably only sail before the wind; and they were steered by a large oar with a flat end very broad passing by the side of the stern.² In our own times first iron and then steel have displaced wood for ship-building generally.

V. The most important advantage of division of labour in material production is connected with the fact that it is an essential condition of the employment of *machinery*, or, more generally, of *auxiliary capital*, as, for example, in the

¹ Quoted in Macpherson's *Annals of Commerce* (from the works of Hugues de Bercy, called also Guiot de Previns), Vol. I., p. 362.

² Macpherson, Vol. I., p. 262. Another good example is the development of the mill.

application of chemistry and electricity. The mere increase in manual dexterity or in quickness of vision or in sensibility of touch is of minor importance compared with the growth of man's power over nature, and this growth has always been conjoined with division of labour.

§ 4. *Separation of Employments involves Combination.* It is obvious that the separation of employments and the division of processes is only possible with corresponding combination. Combination or co-operation of this kind is generally called complex. Even simple combination, however, in which the individuals concerned do the same kind of work, has certain important advantages. (a) Some things are beyond the power of an individual, no matter how long a time he might take, *e.g.*, hauling up a boat, lifting heavy weights, or navigating a large ship. (b) If we take into account *time*, there are certain operations which must be done in a limited time to be of any service. This is especially the case in agriculture: the land must be prepared, the seed sown, and the harvest gathered all in due season. The open-field system of cultivation furnishes an excellent example of this species of co-operation.

Again, many great works can only be accomplished by being carried on continuously over a long period. In this way we have a combination of the work of the dead with that of the living, as, for example, in the construction of railways, harbours, and buildings. As already observed, this species of continuous combination is of especial importance in the development of the immaterial factors of the economic structure of a society.

Complex co-operation or combination will receive further treatment in the next chapter in connection with the law of 'Increasing Return.'

§ 5. *Division of Labour is limited by the Extent of the Market.* If, to take the classical example, it takes eighteen men to make a pin, it is plain that pin-making in this mode can only be carried on advantageously on a large

scale. The extension of division of labour, whether the term be taken in the broad or the narrow sense, is limited by the market. Labour and capital cannot be specialised to particular forms of work unless these methods of production give full employment to the capital and labour required. It follows, then, that an increase in demand due, for example, to the opening up of foreign markets may render possible a greater subdivision of labour and capital, and Adam Smith rightly insists that one of the principal advantages of foreign trade is found in the consequent augmentation of industry in the home country.

Even in agriculture, to which the application of the principle is comparatively limited, the extension of the market enables specialisation to be extended. The growth of towns within an agricultural country stimulates the production of various minor commodities. Thus the position of the outlying farmers in the United States in approving of protection to manufactures is at any rate intelligible; for, although they may pay dearer for these manufactures, they may hope to attain more than compensatory prices for their milk, butter, eggs, and all sorts of bye-products.

In immaterial, as much as in material, production we observe the dependence of division of labour on the extent of the market. A large university can afford to encourage specialisation both in teaching and in research; and the work of the universities in a great country can be supplemented by colleges and training institutions for technical or professional purposes.

In the country a doctor or lawyer is supposed to be conversant with the whole range of law or medicine, whilst in a great city specialisation is carried to an extreme.

The dependence in modern societies of division of labour upon an infinite series of contracts shows that *security* and *exchange* are of fundamental importance in the production of wealth. The vital importance of this apparently simple proposition will appear at a later stage.

§ 6. *Division of Labour and the Localisation of Industry.*¹ As might be anticipated, and as is abundantly proved by experience, the full advantages of division of labour can only be realised by the specialisation of certain places to certain kinds of production.

(a) Such specialisation may be originally due to certain *natural* advantages. Thus the great trades of the world have generally been between places in which the natural conditions are dissimilar. In the world at large there is the trade between the tropical and the temperate zones; and in every nation there is the trade between the towns and the country. Mines, forests, fisheries, rivers, harbours, mountains, plains, and other natural factors have at various times been dominant conditions in the localisation of certain industries.

(b) The influence of natural conditions, however, must not be exaggerated, for in many cases *political* or *social* causes have been the principal elements in establishing certain industries in certain localities. Conversely also trades have been driven from their old seats by the action of governments and of municipal or local authorities. The mediæval period of English history is very fruitful in examples of this kind. Under the protection of William the Conqueror a band of Flemings settled at Norwich and established the cloth industry. For a long period only coarse cloth was made, the finer sorts being imported from the Netherlands. Simon de Montfort forbade (A.D. 1264) any cloth to be worn not of English make, and was probably the first statesman to maintain that England could live on her own resources. Edward III. adopted the same policy, and enacted that no foreign cloth should be worn (except a license had been obtained from the king). He also imported another colony of Flemings, and is thus often credited with founding the cloth and woollen manufacture. Henry VII. planted a colony of Flemings in York-

¹ This topic is admirably treated, with full illustrations, in Marshall's *Principles*, Bk. IV., Ch. X.

shire. In connection with the encouragement of the cloth manufacture we may notice the curious change in policy as regards the exportation of wool. From being the principal export of the country, and in that way one of the principal sources of the king's revenue, it gradually became the most jealously guarded of the raw materials of the kingdom, and the laws against the exportation of wool and sheep were, as Adam Smith says, like the laws of Draco, all written in blood.¹ There can be little doubt, however, that this policy did much to establish the cloth manufacture as one of the principal English industries. Similar protection was accorded to the workers in horn, leather, and silk and other materials, and in fact during the Middle Ages the protection of native industries, especially of the higher grades, altogether apart from monetary considerations, was fully developed. Especially was defence considered of more importance than opulence. Great importance, for example, came to be attached on this score to horse-breeding. A curious law was passed in the reign of Henry VIII. forbidding the exportation of any horse above the value of six shillings and eight pence, and the law was enforced by allowing any one to buy a horse about to be exported for seven shillings. In addition to this a tax of six shillings and eight pence was imposed on the export. The same monarch also enacted that all weakly foals should be killed, and only allowed the larger kinds of horses to be reared. The commencement of the superiority of English horses is ascribed to this policy. Henry VIII. also forbade the exportation of metals in the interests of the makers of firearms, and imported several foreign gun-makers.

When it is remembered that from the early mediæval period downwards great restrictions have been imposed upon foreign trade, which except as regards our own country still continue, and when it is further remembered that

¹ See his description of the savage penalties imposed by Queen Elizabeth, McCulloch's edition, p. 292, Bk. IV., Ch. VIII.

for a long time the mutual jealousy and distrust of towns in the same country were as great as is now the case with different nations, there can be little doubt that the localisation of industries has been largely influenced by political and social causes. Whether protection in various forms has retarded or accelerated the progress of a nation may be a matter of opinion, but there can be no question that it has altered and continues to alter the local distribution of its industries.¹

It must be observed that when once an industry has been established in any country or locality certain causes at once come into play which tend to lead to its continuance.² Even if the origin is accidental the initial advantage of position may sometimes be sufficient to withstand competition with superior natural advantages. Both labour and capital become specialised, and gain in efficiency through continuous improvements; industries subsidiary to the principal industry grow up side by side with it, and the means of communication³ are adapted to the acquisition of materials and the distribution of the product. The cotton manufactures of Lancashire, the woollens of Yorkshire, and the small wares of Birmingham are striking illustrations of the cumulative force of the advantages of localisation. At the same time, however, it has often been proved in the course of history that these accumulated advantages are not sufficient to give the locality a monopoly, and that to maintain its supremacy it must be the first to adapt itself to any new conditions. In the time of the Tudors, when England as a whole was entering on a period of the greatest prosperity, when the mediæval economic system was being broken up and was giving place to the beginnings

¹ For many other examples see Schanz, Vol. I., pp. 434-480.

² See Rogers, *Six Centuries*, p. 105, for an interesting account of the restriction of industries in England in the thirteenth century.

³ Little more than one hundred years ago the Clyde was fordable twelve miles below Glasgow. Chisholm, *Comm. Geography*, p. 232. Compare also the *Manchester Ship Canal*.

of the modern industrial era, on all sides complaints were heard of the decay of towns and of the industries with which they were associated. In many cases, however, the apparent decay was simply the result of the restrictive regulations of the guilds and corporations, which were driving old industries to new localities.¹ In the same way, in our own times, the protection of vested interests has often checked development and in the end transferred the supremacy to other places.

The tendency to localisation is manifested also in the case of immaterial wealth. Universities, colleges, and schools once fully established, have advantages with which new institutions cannot at first successfully contend. The London money market may be traced back to the Lombards and the Jews. Similarly the concentration of the various professions in capital cities is largely due to inherited conditions. Glasgow, for example, in proportion to its wealth and population has fewer lawyers, accountants, actuaries, physicians, and surgeons than Edinburgh.² In immaterial also, as in material wealth, we have abundant examples of the transference of supremacy through the neglect of natural, as distinguished from artificial or accidental, economic influences. The universities of Italy, no less than its commercial cities, lost the leadership of the world, and the ruins and antiquities of Athens and Rome exercise now far greater influence over art than do the living cities.

§ 7. *The Disadvantages of Division of Labour.* Taking division of labour in its broadest sense, all the evils connected with or arising from production on a large scale, from specialisation, and from organisation of industry, might be brought under the title of this section. Such a com-

¹ Cunningham, *Growth of Industry*, Vol. I., p. 452.

² "The Edinburgh banks were all established before any of the others, and transact 70 per cent of the entire banking business of Scotland. The Glasgow banks conduct 23 per cent, and the provincial banks 7 per cent of the business." — *History of Banking in Scotland*, by A. W. Kerr.

plete enumeration, however, is not to be thought of at this stage, and indeed can only be gradually made in the course of the work. At the same time it is convenient to indicate some of the principal of these disadvantages. Most of them, it will be seen, are not necessary and unavoidable consequences of the system, but rather accidental concomitants which by various legal and moral remedies are capable of removal or alleviation. They may be conveniently divided into three groups, physical, mental, and social.

(a) The *physical* evils are illustrated by the average length of life and by the liability to special diseases in different industries. "Almost every class of artificers," says Adam Smith,¹ "is subject to some peculiar infirmity occasioned by excessive application to their peculiar species of work. Ramazzini, an eminent Italian physician, has written a particular book concerning such diseases." Mr. Bevan, in his volumes on *Industrial Classes and Industrial Statistics* generally refers to the physical condition of the work and the consequences to health and duration of life. It is interesting to observe in this topic the danger of *a priori* reasoning even for the purpose of illustration. It might be thought that the coal-miner's occupation was peculiarly unhealthy, but this is not the case; and but for accidents the death rate would be unusually low. On the other hand, grinders of steel, until recently, were very short-lived. Workers in lace and in glass are liable to diseases of the eyes. "Shoddy fever" and "wool-sorters' disease" and similar terms need no explanation. The best illustration, however, is found in a perusal of the causes of and the remedies introduced by the factory legislation.²

(b) Of the evils classed as *mental*, attendant on division of labour, the monotony of the work is generally supposed to be the chief. This has been well put in the *mot* of

¹ McCulloch's edition, p. 37, Bk. I., Ch. VII.

² See the *History*, by E. von Plenier.

Lemontez: "It must be sad to reflect that one has never raised anything but a valve, nor made anything but the eighteenth part of a pin." Mr. Ruskin has expressed the same idea in a vehement protest against modern industry: "It is not, truly speaking, the labour that is divided, but the men—divided into mere segments of men—broken into small fragments and crumbs of life; so that all the little piece of intelligence that is left in a man is not enough to make a pin or a nail, but exhausts itself in making the point of a pin or the head of a nail. . . . And the great cry that rises from all our manufacturing cities, louder than their furnaces' blast, is all in very deed for this—that we manufacture everything there except men; we blanch cotton, and strengthen steel, and refine sugar, and shape pottery; but to brighten, to strengthen, to refine or to form a single living spirit never enters into our estimates of advantage."¹ Adam Smith himself gives countenance to the same idea though in much more measured language. "The man who works upon brass and iron works with instruments and upon materials of which the temper is always the same, or very nearly the same. But the man who ploughs the ground with a team of horses or oxen, works with instruments of which the health, strength, and temper are very different upon different occasions. . . . How much the lower ranks of the people in the country are really superior to those of the town is well known to every man whom either business or curiosity has led to converse with both."² In support of this statement, reference may also be made to the superior intelligence and *morale* of sailors, fishermen, shepherds, and mountaineers. At the same time, however, when we take a broad survey it is doubtful if these instances can be considered more than striking exceptions. Adam Smith himself has shown that the commerce of the towns led to

¹ *Stones of Venice*, 11, VI.

² Bk. I., Ch. X., Part II. Compare also the passage Bk. V., Ch. I., Part II. (McCulloch's edition), p. 350.

the improvement of the country ; and as a matter of history, the city and not the country was the birthplace of freedom. The *villein* of the Middle Ages gained his liberty by living a year and a day in a town, and there can be little doubt that one of the impulses that at present drive the agricultural labourers into the cities, is the idea of freedom alike in the choice of employment, expenditure, and recreation. It needs no demonstration that if the world had continued to be peopled by millions of peasant proprietors, or by similar village communities, there would have been little advance in the highest arts and sciences. Compare, for example, the general economic condition of England and Russia. In England, even during the last half century,¹ there has been a distinct increase in the numbers of the higher grades of labour at the expense of the lower. It must not be forgotten also that the monotony of work involves less mental strain, and leaves the worker, with reasonable hours of labour, energy and inclination for self-culture. The musical talents of Lancashire operatives are well known, and to take a wider example, the enormous circulation of cheap literature of excellent quality is direct proof of the growth of intelligence on the part of the masses of the people. In a word, we ought to expect that in the end labour-saving machinery would save the labourer and leave him mentally much more the master of himself. It is worth observing too that at the present time degradation of labour is most prevalent in those industries in which there is the least division of labour. The Staffordshire nailers, the London seamstresses, the boatmen on canals, and the casual workers at various nondescript occupations, are far below the "hands" in the great staple industries of the manufacturing towns.²

¹ See Mr. Giffen's *Essay on the Progress of the Working Classes. Essays in Finance*, Vol. II.

² Compare on the historical side Mr. Cooke Taylor's *Modern Factory System*. After alluding to the "agony" of the hand-loom weavers and

(c) The *social* evils attributed to division of labour are in general consequences of the interdependence of industries and the concentration of labour and capital in great cities. It is at least conceivable that the cotton famine of the American Civil War may at some future time find an analogue in a famine in the common acceptance of the term, if in a widespread war our command of the seas were lost. Again, it is always possible that some invention or discovery may throw large numbers of people out of employment, or may convert skilled into unskilled labour. The danger is, however, liable to exaggeration. For in the first place invention, as already pointed out, tends to develop not by leaps and bounds, but by small increments, and secondly from the nature of the case, though the finished products of machinery are infinitely varied, mechanical processes are comparatively simple and limited. Thus the monotony ascribed to machinery has its advantages in increasing the mobility of labour.

At the same time the evils connected, essentially or accidentally, with division of labour must not be underrated. The first fifty years of the era of machinery were full of misery and degradation to the operatives concerned, the race itself became dwarfed and stunted in mind and body, and the strongest efforts to check the evils were called for both from the state and from voluntary associations.¹

the "terrible description" of the Leicester stocking-makers, he points out that infant as well as adult labour was often cruelly abused under the domestic system, and that "*the system of infant labour was at its worst and greatest height before any one thought of a factory.*"

¹ Cf. my essay, *Effects of Machinery on Wages*, Ch. II.

CHAPTER VIII.

PRODUCTION ON A LARGE AND PRODUCTION ON A SMALL SCALE.

§ 1. *Division of Labour tends to Production on a Large Scale.* That division of labour when associated with suitable auxiliary capital naturally leads to the concentration of industry and to production on a large scale was first, I believe, distinctly shown by Babbage¹ in discussing the causes and consequences of large factories. Up to a certain point every increase in the number of workers renders greater specialisation possible, and thus leads to increased dexterity, better classification according to capacity, and more full occupation during the time of work. In other words, as Dugald Stewart said, division of labour implies *economy* of labour. But as already shown, division of labour to be effective involves also division of capital; and here also it may be said that up to a certain point every increase in capital renders possible greater division and greater economy. The tendency to concentration is well illustrated by the progress of English industry during the present century. To take the most obvious example, factories have continuously increased in size, more and more complex machinery has been concentrated in our mills, and the machinery has become more and more self-acting, involving for a given output less manual labour. Thus between 1850-75 the proportion of spindles in a cotton factory rose from 10,857 to 14,130, and the number of power-looms from 127 to 174.² Again, in 1837,³ self-

¹ *Economy of Machines and Manufactures*. The most important points are summarised by Mill, Bk. I., Ch. IX.

² Bevan, pp. 9, 37, 38.

³ Taylor's *Modern Factory System*, p. 338.

acting mules contained 324 spindles; in 1887 the ordinary size contained 1080.

In other industries similar results are found; in the weaving of cloth, carpets, stockings, linen, silk; in the working of iron, steel, brass, copper, tin, and lead; in the nice adjustment of watches and firearms; in shaping glass and pottery; in the manufacture of jewelry, buttons, boots, and shoes; finally, in making machinery itself, and in fact in all the great staples, the tendency to concentration may be traced through successive gradations. In the same way ships have become larger and larger, and steamers have more and more displaced sailing-vessels. Railways, telegraphs, and other transport services have been amalgamated. The large shop-keeper has in many cases supplanted the small, and the co-operative store in its turn has displaced the large shop-keeper. Mines, fisheries, and most of the extractive industries employ larger and larger capitals.¹

A similar tendency may be observed in the production of immaterial wealth. Large joint-stock banks have increased their business enormously compared with private banks; insurance companies and friendly societies have grown in wealth and numbers; and the capital required to start a new daily paper is almost prohibitive.

The general causes of this tendency to production on a large scale, which is manifested under so many different forms, as already indicated, may be embraced under the phrase *economy of labour and capital*, taking both terms in the widest sense. The particular ways by which this economy is effected vary in different cases, — *e.g.* in shoe-making and banking, — and for the most part are beyond the range of economic science and belong rather to the art of business. There are, however, certain topics in connection with the management and organisation of production on a

¹ See Schmoller's *Geschichte der deutschen Kleingewerbe im 19 Jahrhundert* for an excellent treatment of the growth of large industries and the displacement of small.

large scale which seem to require more special treatment than was possible in considering the general results of division of labour.

§ 2. *The Management of Production on a Large Scale in Manufactures.* The development of production on a large scale in manufactures has been accompanied by a corresponding development of organisation. The Statute of Apprenticeship¹ (5th Eliz. c. 4) was in many respects a codification of mediæval customs and regulations regarding industry, and even when its provisions did not apply, or had been forgotten, in most cases similar customary practices prevailed until the industrial revolution at the close of the eighteenth century. Under this old system every workman was compelled to serve a seven-years' apprenticeship; the number of apprentices was limited, and every journeyman had a fair prospect of becoming himself a small master. As late as 1806, the number of such small masters, in the environs of Leeds, in the woollen industry was estimated at 3500.² There was little difference between the master and the journeyman, except that the master generally undertook the buying of the raw material, and the selling of the finished goods.

With the growth of factories, the system of apprenticeship (already condemned by Adam Smith and even earlier by Sir J. Child), although it survived in many cases, was abandoned³ as an abuse in connection with the employment of children, and the statute was finally repealed in 1814. The master, as his business grew larger, concerned himself more and more with the general management, leaving details to heads of departments and sub-departments. Bagehot has drawn a just and instructive

¹ Cf. Brentano's *Gilds and Trades Unions*, p. 103. On the general effects of this Statute compare the adverse comments of Rogers in *Six Centuries*. See also Adam Smith, Bk. I., Ch. X., Pt. II., and *infra*, Bk. II., Ch. XII.

² Brentano, p. 105.

³ Of course, the custom of apprenticeship still prevails extensively. See *infra*, Bk. II., Ch. XII.

analogy between modern warfare and modern trade and commerce. "Nowadays it is a man at the far end of a telegraph wire,—a Count Moltke with his head over some papers,—who sees that the proper persons are slain, and who secures the victory. So in commerce. The primitive weavers are separate men with looms apiece; the primitive weapon-makers separate men with flints apiece; there is no organised action, no planning, contriving, or foreseeing in either trade except on the smallest scale; but now the whole is an affair of money and management; of a thinking man in a dark office, computing the prices of guns and worsteds."¹ Objection may be taken to the apparent division of mankind into the two classes of 'primitive' and 'nineteenth century;' but essentially as regards the great manufacturing industries and the corresponding trades the contrast is well founded.²

The management of business has itself become a business. Even in the present century, in connection with the vast improvements in the mass of communications,—railways, telegraphs, telephones, and the like,—the conduct of business has become very different in the last quarter compared with the first. I quote a passage from Mr. Cooke Taylor's work, to which I have already been much indebted: "In the first quarter of the century England was rather an aggregate of isolated districts and disunited towns than one animated, close, compact kingdom. Each city was dependent on the country in its neighbourhood for food supplies; and many a district, rich in mineral or agricultural wealth, lay neglected because far from a seaport or canal. The England of to-day is the opposite of all this. It is one huge congeries, composed of various members, literally bound together with links of iron, and in instantaneous communication with every other member, and with the

¹ *Postulates*, p. 84.

² The factory system is not so modern as is generally supposed. Jack of Newbury, who died in 1520, employed over 1000 persons in woollen manufacture.—Taylor's *Modern Factory System*, Ch. II.

whole world. In face of such changes the factory system tends to become not only more impersonal than ever (the employer, for instance, living no longer at, or perhaps near, his works, and visiting them, it may be, only occasionally); it tends also to be less the superlative factor in wealth creation than it was. For of this system of great industry, partly founded on capitalist production and partly on extraordinary facilities of communication, the factory system is now but one available member, a mesh in the ever-widening web of combined and divided labour, typified by the endless miles of iron road and telegraph wire that environ it. The factory itself is but one of several productive instruments: the line of steamships, mine, or cotton plantation, — all of which may be in the same ownership, and all of which alike claim intimate attention. The successful employer is no longer he who bustles about among his work-people and customers as formerly, but one who in studious retirement can calculate minute quantities with the nicest accuracy, and is the greatest master of the movements of the market. Competition is not among a comparatively few employers, and between a growing or decaying mode of manufacture; it is co-extensive with every method of employment practised under whatever conditions of political or economical compulsion in every quarter of the globe. The old type of factory master is, indeed, almost as extinct as the old machinery. His individuality was first merged in the mere capitalist; his very identity is lost now in the limited liability company or financial syndicate.”¹

It is not so much the management of large masses of labour and capital that is characteristic of modern production on a large scale, as the necessity for rapid adaptation to ever-changing and interdependent conditions. The mediæval cathedral and castle involved production on a large scale; they required the eye of a master-genius both in design and execution; and the building trades of the

¹ *Modern Factory System*, p. 362.

period show many points of resemblance to the modern factory system. "When cathedrals and palaces were built there was but one master—the architect of the present day. Between him and the workmen there were masters and foremen answering to the masters and foremen of modern factories."¹ Strikes were numerous, and the general conditions of work were often regulated by codes which *mutatis mutandis* correspond to our factory rules. The great difference was in the slowness with which such large structures were raised.²

The modern employer of labour (the *entrepreneur*, or undertaker) no doubt occupies a very important place in the modern industrial system; but the tendency is rather to exaggerate than to under-estimate his peculiar functions. Scientifically regarded, modern labour is infinitely complex, and passes by insensible gradations from the lowest forms of manual work to the highest professional skill. The employer of labour is obliged to employ not only the lower but also the higher grades. As the former, however, are more numerous the latter are sometimes altogether forgotten, and thus it appears on a superficial analysis that industrial society consists of a very few employers—superior in natural ability, education, and especially business capacity—and of a large mass of artisans and operatives—in all these respects inferior to the former class.

A survey of the occupations of the people revealed by the census, and of their incomes as shown in the revenue returns, shows that such a division of society into one class and one mass is absurd. It is like describing the railway system of a country as being carried on by the general managers on one side and the engine-drivers and porters on the other. A moment's reflection will show that engines, carriages, bridges, tunnels, buildings, in brief, permanent way and rolling-stock, must all be designed

¹ Brentano, p. 80.

² Rogers' *History of Agriculture and Prices*, Vol. I., p. 260.

and constructed. Engineers are not contractors, but without the plans of the engineers the contractors could not begin. A railway, besides, makes numerous demands on the less technical professions — lawyers, bankers, accountants, stock-brokers.

What is true of the railway system is equally true of shipping. The management of unskilled and ordinary labour, whether in ship-building or navigation, is only one of the higher forms of labour required. And what is true of the transport services is still more true of industrial society taken as a whole. Business management absorbs a part, but only a part, of the higher grades of labour, and in very few cases does it appear to call for the highest ability. Large fortunes are occasionally made in business, and it is naturally assumed that in all or in most cases they are simply the fair economic reward for services rendered to society; it is forgotten that much depends on opportunity and coincidence. The normal earnings of employers *qua* employers are by no means extravagant, and they probably represent much more justly the comparative value of the services rendered. The regular employer of a thousand men may not earn so good an income as the doctor, lawyer, and clergyman who employ nobody except domestic servants, and yet there may be no economic injustice.¹

We must remember that corresponding to the combination (voluntary and unorganised) of use as regards natural things there is similar combination in the employment of persons. Scientifically regarded, professional men are labourers who are employed by a multitude of masters, and at any rate in his own department (*e.g.* law or medicine), the person employed is superior to his employer. In material industry, on the other hand, it is generally assumed that the master or manager is superior to those employed by him; but it is quite possible that the mere business management may be an easy matter compared

¹ *Cf. infra*, Bk. II., Ch. XIII.

with the technical skill required, when all the labour involved is taken into account. In spite of the obvious and almost organic interdependence of the parts of the modern industrial system, we are apt to look on different trades as quite isolated, each with one master and many men. We overlook the many masters and one man as is the case of the architect, the civil-engineer, the chemist, and the electrician; we are still more blind to the aid afforded by the banker and bill-broker in the production of material wealth.

§ 3. *Counteracting Causes to the Concentration of Labour and Capital.* Production on a large scale seems necessarily to imply the concentration of labour and capital. Accordingly one of the principal positions of Socialist writers, such as Karl Marx, is that in the natural development of industry all the capital of a country will find its way into a very few hands, and that the way will thus be prepared for the assumption by the state of the management of industry. The problem of the distribution of wealth may for the present be postponed, but it is desirable to observe, in taking a broad survey of the modern productive system, that like other tendencies the tendency to the concentration of labour and capital is liable to be counteracted.

I. The localisation of industry may be sufficient to obtain most of the advantages of the large system of production, although, in fact, a number of contiguous but independent small factories and workshops take the place of one large establishment. As Professor Marshall¹ points out, in his excellent treatment of this topic, *internal* and especially *external* economies can often be secured by the concentration of many small businesses under different management in particular localities. The localisation of industry is of very ancient origin, and in Eastern towns and cities we still find particular quarters devoted to particular occupations. The localisation of industry, in some

¹ *Principles*, Bk. IV., Ch. IX., X. See p. 325 for an explanation of the terms.

cases, may even lead to the existence side by side of the domestic and the factory system. An interesting illustration is furnished by the glove industry of Grenoble, which gives employment to about 25,000 persons, four-fifths of whom are women and children. Division of labour is carried to such an extent that each pair of gloves passes through about two hundred hands. In some cases the sewing of the gloves is done in the factories, but in most instances they are sent into the mountains, and distributed by sewing contractors among the peasant women.¹

One of the chief advantages of the concentration of capital in large factories is in the economy of motive-power. If, however, as seems probable, electricity to a great extent can be made to take the place of steam, this advantage will disappear. As I write, a striking example is afforded by the ribbon trade of St. Etienne.² The city council has resolved to apply electric motive-power to the hand-loom, the dynamos being driven by water from the city reservoirs. At present steam is but little used, so that we have not so much a reversion from, as a preventive of, concentration. In England, in the last century, water-power was generally used in manufactures, and it is quite possible that some industries may again return to their old seats.

Again, even if the separation of processes does involve a certain loss of motive-power, it may be more than compensated by the greater empirical skill of the small masters, and the keener watchfulness over the quality of the work, and the economy of material.

II. In connection with all large industries there are subsidiary industries, which in size may be ranged according to a decreasing scale. This gives scope for the employment of small capitals under small masters; *e.g.* blacksmiths, bell-hangers, plumbers, glaziers, carpenters, sweeps, engravers, horse-dealers, house-painters.

¹ For full description see *Board of Trade Journal* for March, 1892.

² *Ibid.*, p. 331.

III. New wants give rise to new luxuries, and new luxuries create new wants. In such cases there is often required scientific or artistic skill which cannot be exercised on a large scale. A glance at the directory of any large town, and, still better, an examination of the occupation tables of the census, will reveal numbers of employments which, from the nature of the case, must be conducted on a relatively small scale. Obvious examples are offered by sculpture, painting, and the fine arts generally, and by various practical sciences and their accessories.

In conclusion, it may be pointed out that the world only requires a certain amount of things that can be produced uniformly on a large scale, and that, when the simpler wants have been satisfied, the tendency to variation in wants is manifested in a differentiation of productive processes. Thus, every increase in the wealth of a society is generally accompanied by an increase in the variety of its occupations.

§ 4. *Joint-Stock Companies.* It is a curious fact that when production on a large scale has reached a certain point, and capital has, in accordance with the socialistic idea of development, become massed in the hands of the few, a tendency to disintegration sets in, so far as the ownership of the capital is concerned. Production still goes on on a large scale, but the capitalists become more numerous. This result is mainly achieved by the conversion of private firms into joint-stock companies, a conversion which has received a great stimulus in recent times (from A.D. 1855, in England) through the adoption and extension of the principle of limited liability.¹

It must not be supposed, however, that companies are of quite modern origin. "It has for many years been a moot case," wrote Sir Joshua Child towards the end of the seventeenth century, "whether any incorporating of merchants be for public good or not." About a century later

¹ For a brief history of the Companies' Acts, see Leone Levi's *History of British Commerce*, Pt. IV., Ch. XI.

Adam Smith, in a celebrated chapter,¹ answered the general question decidedly in the negative (though admitting some important exceptions), and supported his opinion, according to his wont, by an elaborate historical inquiry.²

Speaking broadly, companies may be said to have been instituted primarily for the development of various branches of foreign trade, and they were divided into two kinds, *regulated* and *joint-stock*.

Regulated companies "resembled in every respect the corporations of trades so common in the cities and towns of all the different countries of Europe."³ Just as in the domestic trade, a person must obtain his freedom in the corporation, so in the particular foreign trade, he was obliged to become a member of the company which possessed the monopoly. At first the right of membership was obtained (as in incorporated trades) by being apprenticed to a member; but gradually heavy fines or entrance fees were exacted, and other burdensome restrictions imposed, so that Adam Smith concludes that "to be merely useless is, perhaps, the highest eulogy which can ever justly be imposed upon a regulated company." At the same time, however, it must be observed that he allows that such companies may have been useful for the first introduction of certain branches of commerce.

In *joint-stock* companies, as the name implies, the members traded upon a common stock, and not independently as in regulated companies. They differed from private partnerships chiefly in two points: in the right of the shareholder to sell his shares without the consent of the other members, and in not being able to withdraw the capital subscribed except indirectly in this manner.⁴

¹ Bk. V., Ch. I.

² For still earlier history, see Schanz's *Handel's-Politik*, Vol. I., Pt. II., Ch. I.

³ Adam Smith, McCulloch's edition, p. 330.

⁴ Adam Smith adds erroneously that in a joint-stock company each partner is bound only to the extent of his share. This was true as against his co-partners, but not as against the public.

The management was in general confined to the directors, although they were nominally under the control of the proprietors.

Joint-stock companies were held to be superior to regulated companies in the development of foreign trade, because they were prepared to maintain forts and garrisons, and the members had no private trade that could clash with the general interests of the company. Very great abuses, however, arose from granting to private persons the right of making peace and war in undeveloped countries, and the strictures of Adam Smith may well be impressed on those who, at the present time, are anxious for the rapid development of Africa. The history of the East India Company is the most striking example both of the failure and of the success in different ways of this kind of joint-stock enterprise. It is one of the best instances of the injurious effects of a monopoly. When the monopoly was strictly maintained, the trade with India never prospered; whenever it was relaxed through the attacks of interlopers, as they were called, it increased; and finally, when the monopoly was abandoned, the increase in trade was enormous. As McCulloch points out,¹ before the abolition of the monopoly our trade with India was not so great as with Jersey or the Isle of Man; after the abolition it fell little short of that with the United States. As regards the members of the company they gained indirectly. They did not care for dividends, for if they did not share directly in the plunder they shared in the appointment of the plunderers.² It was under these conditions that English adventurers came back with the wealth and style of "nabobs" and sent up the price of seats in Parliament. "A seat in Parliament was for sale, and they bought it without hesitation or misgiving; . . . as Lord Chatham said, they forced their way into Parliament by such a torrent of corruption as no private hereditary fortune could resist."³

¹ Note XX. in appendix to *Wealth of Nations*. ² Adam Smith, p. 338.

³ Erskine May's *Constitutional History*, Vol. I., p. 335.

And yet, on the other hand, though it was done with the cruel rapacity of Roman provincial Governors, the "nabobs" laid the foundation of our Indian Empire. A careful survey of the history of the East India Company seems to show that from the first it was supported by the home government, not as a trading, but as a conquering body. Alike under Charles I., Cromwell, and Charles II., its charter was renewed and strengthened. The privileges were sometimes obtained by bribery, as in A.D. 1688, but the continuity of policy from Elizabeth onwards suggests the persistence of a leading idea, and that idea appears to have been territorial aggrandisement.

In spite of these monopolies nearly all the companies founded for the promotion of foreign trade as trading bodies failed through mismanagement.¹ It is not, then, surprising that Adam Smith, influenced as always by facts, should have supposed that joint-stock enterprises (without exclusive privileges) could only succeed under conditions in which the management could be reduced to methods of routine. His reasons are: 1st, the comparative want of self-interest on the part of the managers, when most of the money under their control is not their own; and, 2d, the want of economy in respect to small savings. These reasons, however, do not seem of sufficient weight to support his conclusion, and during the present century joint-stock companies have increased greatly both in numbers and success. It is true that in the periods of inflation which precede commercial crises a number of unsound concerns have been floated, but the proportion of the unsound to the sound has steadily fallen. Adam Smith was too much influenced by the history of the foreign trade companies, and by the speculative frenzy which culminated in the South Sea Bubble. It does not seem difficult to overcome the want of self-interest in the managers. In the first place, they only attain their position after years

¹ See Adam Smith's quotation from the *Abbé Morellet* on the failure of fifty-five of these companies in different parts of Europe.

of service, and they acquire an instinctive professional zeal and take pride in success. And, apart from these influences, they may be encouraged by receiving some share in the profits, and by the hope of a rise in salary. The exceptions allowed by Adam Smith really show, when properly considered, that joint-stock enterprises may be largely extended. He enumerates banking, fire and maritime insurance, construction and management of canals, and supplying a city with water. In every one of these instances the greatest ability, zeal, and fidelity are required on the part of the manager, and if they can be obtained in these cases there seems no reason why they should not be forthcoming in others; and, as a matter of fact, we find successful examples in shipping, gas, tramways, railways, newspapers, electricity, distilleries, and all kinds of industrial enterprise. At present the tendency is for every business that reaches a certain size to be converted into a company, and although at first the shares may be few in number, and practically not open to public sale, in time an increased division is certain to take place. The limitation of liability is, no doubt, one great inducement; but, apart from this, there are other real advantages connected with joint-stock companies. The principal seem to be the following:

1°. Some undertakings are beyond the scope of private capital, and the choice lies, if they are to be carried out at all, between government and joint-stock management. Any general objections to the latter apply, as a rule, with much greater force to the former. British railways, for example, compare very favourably with those of countries in which they are controlled by the state.¹ Even the post-office probably owes much of its financial success to its monopoly, which it sometimes guards with too much zeal for the public interest.²

¹ This question has been admirably handled by Jevons in his *Methods of Social Reform*. See also Grierson's *Railway Rates English and Foreign*.

² As in the case of telephones, the delivery of letters by messengers, the extension of postal facilities of remote districts.

2°. Even if the capital required is not absolutely too large for private persons, it may still be relatively so large as to be better adapted for joint-stock contributions. It is certainly for the advantage of the public that in this case companies should compete with private traders, or otherwise the latter would practically have a monopoly, and at any rate could easily combine. Besides this a private trader would expect ordinary business profits upon the whole of his capital, whilst the shareholders of a company are satisfied with interest a little above the ordinary rate. If a company is earning more than this, the fact becomes known, and others are promoted.

3°. There is greater security in a large capital widely distributed. Even when the principle of limited liability is adopted, there is often a large amount of uncalled capital, especially in the case of banks and insurance companies. This ultimate reserve adds greatly to the stability of such undertakings, although, of course, it adds equally to the risks of the shareholder.

4°. There is greater publicity in companies, and fraud is not so easily concealed. It may be observed, however, that both as regards security and publicity, the law (in the United Kingdom) appears to require strengthening. It is satisfactory to note that the courts have (as often happens) suggested the necessity for such reform by construing existing statutes very strictly. The responsibility of directors, and the publication of correct and adequate accounts, have been rigidly enforced by recent decisions.

5°. Joint-stock companies serve to collect small capitals which would otherwise lie idle. And although the investors can have little knowledge of, or control over, the management, by a careful distribution of their funds, over a number of different concerns, an average interest may be realised sufficient to neutralise the risk. This principle has recently led to the creation of various trust and investment companies which, though liable to abuse, are essentially as sound as other forms of insurance.

6°. In a private firm much depends upon the individual members. The death (or private bankruptcy) of one partner may suffice actually, or practically, to break up a business. In the case of a company, the death or insolvency of a shareholder would make no difference, and a change of management is easily effected when necessary.

7°. The publicity attending the statement of expenses and earnings of joint-stock companies is of great advantage in throwing light on the general condition of the industry concerned. Thus a good idea of the cotton trade can be formed from the reports of the companies which in the Oldham district are said to have a capital of over £3,000,000. The returns of coal and iron companies, and of railways, tramways, and shipping are similarly instructive.

CHAPTER IX.

LARGE AND SMALL FARMING.

§ 1. *Statement of the Question.* In discussing any economic problem of a practical kind it is obvious that we cannot hope to obtain the precision that is possible in abstract reasoning. Many fallacies, however, arise in the application of principles to practice from forgetting this very obvious distinction, and, as a natural consequence, people are apt to assume that any such application is vain. But the principles are of service if only in suggesting lines of inquiry, and in showing the necessity of breaking up a complex question into manageable fragments. There is, perhaps, no subject in the art of political economy which has been more discussed than the relative advantages of large and small farms; and authorities of equal magnitude are found taking apparently opposite views. The difference, however, is more apparent than real, because different meanings have been attached to the term advantage. All that will be attempted in the present chapter is, in the first place, to point out the various questions involved, and secondly, to enumerate the principal circumstances that must be taken into account in forming an estimate from the point of view of production.

§ 2. *Gross Produce and Net Produce.* Even when the question is regarded solely as one of production, and the various elements more properly treated of under distribution are neglected, at the outset an ambiguity is discovered. The general question of production may be worded: Given a certain amount of land, labour, and capital, will the large

or the small system of cultivation give the greater return? It will soon appear, however, that we must first of all decide whether we mean the gross or the net return. Nor is this the only ambiguity. In either case, in making the comparison, we ought strictly to take the same amount of land, labour, and capital; but in practice such strictness is impossible. In discussing the advantages of peasant proprietors, for example, attention is always directed to the greater ardour and industry of owners compared with hired labourers; but, in reality, this assumes a greater quantity of labour in the one case than in the other. Again, with regard to capital, the amount applied will vary according to the security afforded; witness the aphorisms of Arthur Young. "Give a man the secure possession of a bleak rock and he will turn it into a garden; give him a nine-years' lease and he will convert it into a desert;" and "the magic of property turns sand into gold."

Even with regard to the land itself there is an element of uncertainty. With different kinds of produce, for example, we can only form a comparison of the returns by taking the money value, as in the typical case of grazing land and arable. But here the difference between the gross and the net returns may be of vital importance. An extreme example will best show the nature of the difficulty. In Scotland, on many large estates in the Highlands, land yields a higher rent under deer than under sheep; but when a sheep-farm is converted into a deer-forest, on account of the higher rental, there is no doubt that the gross yield to the land is diminished, — if by yield we mean, on the one side, wool and mutton, and, on the other, deerskins and venison. But it would be difficult to prove to a land-owner that the net yield of his estate has been diminished in spite of the rise in rent. At the same time it would be equally difficult to prove to the general public that the net yield to the land of the country, as a whole, has not been diminished.

A diminution in the gross produce, however, does not

necessarily mean a diminution in the net returns either to the individual or the nation. As will appear subsequently, a check to the gross production¹ is a necessary condition of the payment of rent, and from the national point of view, it is clear that after a certain point labour and capital will yield a greater surplus when diverted from agriculture to manufactures, as is well shown by the history of England during the present century.

This position was laid down with great force by Quesnay and the supporters of the so-called Agricultural System; the very object of which was, nevertheless, to show that land is the only source of riches, and agriculture the foundation of all wealth, and that manufactures certainly ought not to receive special favour from the state compared with agriculture. The following passage seems worth quoting: "Let lands devoted to the cultivation of grain be joined together as much as possible in large farms, managed [*exploitées*] by rich cultivators; for there is relatively much less expense, and much greater net produce, in large agricultural enterprises than in small. The multiplicity of small farmers is prejudicial to the population. That population is most secure, and most readily diverted into the different occupations and industries, that divide men into classes, which is supported out of the net produce. Every economy made in the work done by animals, machines, water-power, etc., returns to the advantage of the population and the state, because the larger net produce enables men to procure a greater gain for other services and other work."²

It is, of course, possible, as Mill shows very clearly, that, although the non-agricultural population bears a less ratio to the agricultural under small than under large cultivation, it does not follow as a consequence that it will be less numerous absolutely. "If the total population agri-

¹ Bk. II., Ch. XV.

² *Maximes générales du Gouvernement économique d'un Royaume agricole.* — *Œuvres de Quesnay* (Oncken's Edition), p. 334.

cultural and non-agricultural is greater, the non-agricultural portion may be more numerous in itself, and may yet be a smaller portion of the whole. If the gross produce is larger, the net produce may be larger and yet have a smaller ratio to the gross produce.”¹

§ 3. *On the Meaning of the Term Advantage.* Much of the controversy on the relative advantages of the two systems, however, arises from the fact that the question cannot be regarded entirely from the standpoint of production. Just as in the passages quoted Mill is concerned to show that there may be under the small system a large non-agricultural population disposable for manufacture, commerce, navigation, defence, science, art, literature and other elements of national power and well-being, so at present the relative decrease in the agricultural population of Great Britain is regarded with alarm. That is to say, the mere economy of production is considered as only one species of national advantage. The health, both physical and moral, of a nation is held to depend upon a large rural population, and it is assumed that the towns must receive a continuous flow of new blood from the country. The idea is by no means new. The saying of Pliny: *Latifundia perdidere Italiam* ranks as a proverb, and Latimer's lament on the decay of the yeomanry is one of the few sermons that have been quoted by economists.² In some countries the number of hearths on the large estates has on military grounds been ordained to be kept up, and, speaking generally, it is only in quite recent times that land has come to be regarded simply as one of the agents of production. Even in the United Kingdom at the present time there are few who would maintain that property in

¹ Mill, Bk. I., Ch. IX., § 4. For further discussion of this point, see below, Ch. X., on the law of diminishing returns.

² Compare also the *Brief Conceipte touching the Commonwealth of England*, by W. S. (A.D. 1588): “Those sheepe is the cause of all these mischieves, for they have driven husbandry out of the country by the which was increased before all kinds of victailles and now altogether sheepe, sheepe, sheepe.”

land ought to be placed on precisely the same footing as other forms of property, and is in need of no exceptional legislation.

So far as these and similar topics appear to come into the province of political economy, they naturally fall under the department of Distribution¹ and will be treated later on. It seemed necessary, however, to prevent misconception to state explicitly that the subject of large and small farms is not merely a problem in production.² As such, however, it must be mainly considered in the present chapter.

§ 4. *The Economies of Large and Small Farming compared.* It is true that in agriculture under present conditions division of labour cannot be carried so far as in manufactures, but Mill's contention that a single family can generally supply all the combination of labour required for the "common farming operations," and that when "a union of many efforts is really needed" co-operation in some form will answer the purpose, seems altogether exaggerated. He allows indeed that, if the subdivision of land is so minute that the cultivators have not enough to occupy their time, the waste of productive power will be a great evil, but so long as such excessive *morcellement* is avoided he thinks that large farms have very few advantages over the small. The difficulty in forming an estimate is mainly one of complete enumeration; a small advantage in twenty different particulars may be more than sufficient to turn the scale against custom and tradition. If the question is considered from the point of view of land, labour and capital—the three great agents in production—respectively, the enumeration, if not complete, may be more readily completed than if the various items are taken at random.

I. As regards the land itself there are certain advantages that can only be obtained from a comparatively large

¹ See Bk. II., Ch. IV.

² See Ch. II. of my book, *Tenant's Gain*.

surface. Such, for example, are the proper rotation of crops, the due proportion of arable to pasture, the convenience of farm roads, and the adjustment of the drainage system. The necessity for enclosures, if improvements are to take place, was proved by a great historical struggle, and it is obvious that there must be a great waste if the enclosures are very small.

II. With regard to the application of capital there are several circumstances in which large farms have the advantage. In buildings of all kinds, in implements and machines, in breeds of stock and in carriage to and from the market, the large farms have advantages which the small farmers can only partially obtain by co-operation. It does not seem, however, that co-operation is an adequate substitute, to judge from recent accounts of the French peasantry. I quote one or two passages from the interesting work of Lady Verney¹: "Every day we met processions of basket carts so small as to be quite a curiosity; sometimes fifteen or sixteen were following each other, drawn by milch cows, which often go twenty miles in the day, their milk being diminished accordingly sometimes to about seven or eight pints a day. They were carrying wood or potatoes or hay down to sell and bringing back manure. Oxen walk slowly enough, but a cow's pace is hardly moving at all, and to see the thin beasts crawling slowly up the steep hills, each with a man attending, was strange indeed. One good-sized wagon with three horses would have carried the whole lot in less than a quarter of the time; but here each man prefers to wear out his own strength and that of his cows at his own pleasure; co-operation seemed quite impossible." Again, as regards the use of machines²: "That machines that are the very life of agriculture in America and with us are also occasionally to be found in France there is no doubt, but they must indeed be few when, during three weeks of very careful

¹ *Peasant Properties*, p. 140. The reference is to Auvergne.

² *Ibid.*, p. 143.

investigation and inquiry, after having seen the corn reaped in the North, the hay cut and carrying everywhere, and ploughing going on along the whole line of our journey we had there only once come across a single one." Again, as regards the "inhabited stables"¹: "The ground inside was like that without, only a little less wet. . . . There was only a glazed hole by way of a window that did not open, and light and air came in by the distant door. . . . As I followed the mistress of the house, four or five large geese rushed past her legs and nearly upset me. Here there was not the smallest opening of any kind, but she undid the upper half of the door, and I saw there a horse, a sick calf, and the place for the fowls; here were two more beds for the men, *i.e.*, her husband and a farm boy. The smell and the dirt were so intolerable that I hardly dared step into the place. Everywhere was the bare earth, or rather mud. This was by far the largest and richest homestead that we saw, and perhaps because there was more of it, it looked more wretchedly dirty than the rest."

III. With regard to labour, it is plain that the small farmers cannot make an adjustment of work according to capacity and so as to fill up the time in the best manner or to the same degree as the large farmers. It is also plain that they are not likely to have the same scientific skill, or, what is the next best thing, to have the command of it. Nor are they likely to make experiments or follow a new lead readily. In fact the one great advantage that the small farmer as a rule possesses is inherited and empirical skill, which, however useful under conditions fixed by custom, may, when conditions are changing, prove an obstacle in the way of improvement. The devotion to labour, the ardour in cultivating to the utmost, and the proverbial thrift of peasant proprietors have also their dark side. I quote one more passage from Lady Verney's work.² "In

¹ *Peasant Properties*, p. 151.

² *Ibid.*, p. 151.

England thrift appears to be a great virtue. Here one hates the very mention of it. . . . The sordid, unclean, hideous existence which is the result of all this saving and self-denial, the repulsive absence of any ideal but that of '*cacher de petits sous dans de grandes bas*' as an object for life is incredible, if it is not seen and studied."

There can be little doubt that in general the British agricultural labourer is better off than the French peasant owner. It must, however, be remembered that the case in France is aggravated by the law of equal inheritance, and that the excessive *morcellement* is partly due to the *partage forcé*. But the aversion to make exchanges and thus amalgamate the little plots throws a strong light on the difficulty of co-operation. And when we find as a fact that apart from such a law of inheritance there is in small farms an almost universal tendency to undue sub-division, it is, to say the least, unscientific to argue as to what might happen if this disturbing cause were absent. In the Highlands of Scotland and in Ireland¹ land has in many places been divided until the plots are too small to support a family.

In the county of Sutherland the crofters are comparatively well off, and their prosperity is largely due to the strict enforcement of the estate rules against sub-division of holdings, — rules, it may be remarked, which are intensely disliked by the people themselves.²

This leads me to notice the great difficulty very small cultivators must always experience in making an average income over a term of years. With fluctuations in seasons and prices, with the danger of epidemics in man and beast, with possibilities of blight and plagues of various kinds, the small cultivator cannot hope that every year will provide for itself even a necessary minimum for subsistence. Famine and pestilence have shown repeatedly the reality

¹ Cf. Arthur Young's *Tour in Ireland*, Vol. II., Ch. V.

² The feeling is natural. As Seeböhm shows, the indivisible holding is a sign of serfdom.

of these dangers. Accordingly, I cannot refrain from expressing the opinion that the attempt recently made in Great Britain to establish a system of small farms and small proprietors, by the aid of legislation and state credit, is extremely unwise. Fortunately, for the present, it also appears to be impracticable owing to the conditions laid down. In these days, however, an act of Parliament is soon altered or developed. There is a growing tendency to make special laws for special cases, regardless of the consequences in the way of analogies, and to reduce Parliament itself to the level of a shifting executive commission. Except perhaps in name, we appear to be reverting to the mediæval practice of enacting laws for a limited period. Ready adjustment to a changing environment is no doubt part of the meaning of evolution in general, and the rigidity of codes has long been a matter of reproach. At the same time, however, laws not founded on broad principles are, properly speaking, not laws at all; they are only political expedients which, like causes and entities, ought not to be multiplied beyond necessity.

To return from this expression of private opinion to the enumeration of facts, there are several circumstances connected with land (or natural conditions), capital, and labour, which, though not falling under the title of economies of production, exercise a powerful influence in determining what system of cultivation, the large or the small, will be actually adopted in any society.

§ 5. *The Influence of Natural Conditions.* Hitherto the so-called common operations of agriculture have alone been considered. It is obvious, however, that land is the source not only of the great food staples, but of various raw materials (*e.g.*, flax, cotton, etc.), and other products that are easily adapted for direct consumption (*e.g.*, olives, grapes, etc.). Now some of these things, from the nature of the case, are best adapted for production on a large scale, whilst others, requiring constant care and minute oversight, are more suitable for the small system. Of the

former, wool may be taken as typical, of the latter, vines. Again, some kinds of produce will not bear long transport without danger, and consequently are best adapted for the neighbourhood of towns. In some cases produce of this kind (*e.g.*, garden produce) can be grown advantageously on a small scale, the value being high in proportion to excellence of quality. It is to be observed, however, that the peculiar kind of skill required is not always forthcoming in response to an increase in demand.

The climate obviously affects both the kind of crop and the kind of labour. In many parts of the South of Europe artificial irrigation is as necessary as drainage in the North, and to be successful, irrigation requires much care. The climate is also of importance as affecting the certainty or uncertainty of the yield.

The quality of the soil is sometimes sufficient to determine the kind of cultivation. The mountains of Scotland, Wales, and Northumberland, as Adam Smith observed, seem destined by nature to be the breeding-places of Great Britain for cattle and sheep. In France, the country *par excellence* of small farms, there are extensive tracts only adapted for the large system of farming.

§ 6. *The Influence of Capital and the Rate of Profit.* Large farms obviously require, in general, large capital. Thus in poor and backward countries, and sometimes in newly-settled districts, the holdings are comparatively small on account of the small capital of the cultivators. As the capital accumulates the farms are amalgamated.

The rate of profit to be obtained is sometimes of predominant influence. The large farmer looks to the profit on his capital, whilst the small farmer looks to the employment of his own labour and that of his family. Accordingly, with falling profit, there is often a reaction in favour of small farms. Thus, as Rogers¹ has shown, the diminution of profit after the Black Death consequent on the increased cost of labour and materials, led to a great

¹ *Six Centuries*, Ch. X., "The Landlord's Remedies."

extent to the abandonment of cultivation on a large scale by the land-owners, who sought their remedy in letting their land in small holdings to the peasants. Again, in the sixteenth century, the profits of sheep-farming led to the adoption of the large system, with an outcry against rural depopulation as already indicated. At the present time, apart from the legislative stimulus noticed in the last section, the fall in profit, and consequently in rent, has led land-owners to look with favour on small farms. On the other hand, the difficulty is to find suitable tenants with small capital adequate for the purpose, and it is in this respect that the aid of government is chiefly demanded.

§ 7. *The Influence of the Condition of Labour and of Relative Wages.* In small farming, the rate of profit is of less importance than the remuneration for labour.

If labour is very dear, a man who cannot employ others is encouraged so far to employ himself. At the same time it is not the absolute but the relative rate of wages that is generally of most importance. A farmer may think agricultural labour dear, but the labourer may consider his wages low compared with the rates current in other employments. Accordingly, it has often been found that a rise of wages in the towns has a prejudicial effect on small holdings. The tenants or owners are either themselves attracted to the towns, or send their children, and the small cultivator relies upon his family. It must be remembered, also, that in choosing between town and country life the labourers themselves are the judges, and it is not to be expected that they will estimate pleasures in the same way as philosophers and poets; and few even of these privileged classes care to live more than a part of the year in the country if they have freedom of choice.

§ 8. *The Influence of Legislation.* It has been well observed by M. Hippolyte Passy,¹ that the influence of

¹ *Systèmes de Culture en France*, p. 58. Throughout this chapter I have been much indebted to this work, which is still probably the best on the subject.

the civil law on the modes of culture, especially with respect to the adoption of the large or the small systems, although considered by many writers the most decisive of all causes, is in reality very seldom of much importance. So far as the laws affecting property in land operate, he maintains that they influence the amount produced rather than the modes of cultivation. Large estates do not necessarily imply cultivation on a large scale, nor does a wider system of ownership necessarily imply small cultivation. A great estate may be let out in small farms, and a large farmer may rent land from several owners.

Until recently it was a favourite contention of economists in this country that if the laws of entail and primogeniture were abolished and a simple and inexpensive system of transfer adopted, at once a stimulus would be given to the creation of small properties and small farms. It is, however, very doubtful if the greatest simplification of the law in this direction (*e.g.*, Parliamentary titles and compulsory registration) would have much effect. The ownership of a large estate would still carry with it a certain social status for which people would continue to pay a high price, and so long as this is the case land must be an unprofitable investment for agricultural capital. In new countries where great improvements are required, and where there is always a chance of a rapid rise in value, the purchase of land, if allowed by the law, may be preferable to a long lease. Again, in countries with undeveloped credit and rudimentary methods of saving, land may be regarded as the only savings bank that will yield any return at all, the choice being between the purchase of land and hoarding. But in Great Britain, an agricultural labourer who had saved enough money to purchase a small farm would certainly be better advised to rent a larger one, or to emigrate with his capital. If legislation of such a kind were introduced as to impose all kinds of differential burdens on large estates, and to render it impossible to let

land, unless under onerous conditions (such as are shortly indicated by the three F's — namely, fixity of tenure, free sale, and fair rents),¹ if the social condition of the country were to become such that anything short of cultivating ownership would provoke hostility, then no doubt some encouragement would be given, especially if state credit were added, to small tenants to purchase and to large owners to sell. This process has been exemplified in Ireland, in which it may be justly said that legislation has done much to break up large estates and to create small owners. But the process has not been one of free trade in land; that method was the first tried in the act of 1860, and the first found wanting.²

The consideration, however, of the relation of landlord and tenant naturally comes up for discussion in the second book.³ In the meantime it is sufficient to emphasise the judgment of M. Passy, that the influence of the civil law is only one element affecting the system of cultivation, and generally not the most important.

¹ See Bk. II., Ch. IX.

² Compare Richey's *Irish Land Laws*, Chs. VII., VIII.

³ See *infra*, Bk. II., Ch. IX.

CHAPTER X.

THE LAW OF DIMINISHING RETURN AND THE LAW OF INCREASING RETURN.

§ 1. *Preliminary Explanation.* The question of production on a large and on a small scale in manufactures is closely connected with the law of increasing return, and the corresponding problem in agriculture is similarly associated with the law of diminishing return. It seems desirable then to discuss these laws at this stage,¹ especially as they are fundamental also in the theory of population.

At first sight nothing can appear more striking and simple, when once it is pointed out, than the contrast between agricultural and manufacturing industry. If England under present conditions were obliged (as in a great war) to dispense with the importation of food, the consequent rise in prices would give an immense stimulus to agriculture; capital and labour would, as rapidly as possible, be devoted to farming; inferior land would be thrown into cultivation and good land would be cultivated to a higher degree. The annual produce would of course be increased, but it would not be increased in proportion to the additional expenditure. The inferior land would not yield so much as the good land did before, and the higher cultivation of the good land would not be proportionately more productive. In technical language, whether we consider the extensive or the intensive application of more capital to land, there would be a diminishing return.

¹ Mill takes the law of diminishing return after the treatment of the growth of capital and population.

Apart from radical improvements in the methods of production, the cost of raising this additional produce would remain high. The fertile land is limited, and the amount of capital that can be applied with advantage to any portion of land is also limited. To put too much stock on pasture, or too much manure on arable land, would be worse than useless.

Although it is true that, under the conditions supposed, a stimulus would also be given to improvements in agriculture, we could not expect that these improvements would be very rapid or very great. There is little room for greater division or greater economy of labour, the use of machinery is comparatively limited, and changes due to a better selection of plants and animals are only slowly accumulative in their effects. If, then, we consider not merely the power of increase under certain circumstances, but also the probable progress under an advance in the arts of production, it is natural to assume that the influence of the improvements will be overbalanced by the decreasing productiveness of the land, and that, speaking generally, additional supplies of food can only be obtained by a greater proportional sacrifice of labour and capital.¹

How far this second form² of the law of diminishing returns, which takes account of radical changes, is on the same footing as the first, which assumes that no such changes occur, will require subsequently careful examination. In the meantime it may be observed that it found its way into English political economy at a time³ when, under the stress of the Corn Laws and a great war, the demands of an increasing population made the recourse to inferior

¹ "It is invariably found in the long run," says McCulloch, "that this is the case." — *Wealth of Nations*, Appendix, Note III., on "Rent." See also Ricardo, Ch. V. : "The natural price of all commodities, *except raw produce and labour*, has a tendency to fall."

² The dynamical as distinct from the statical. Cf. Mill, Bk. IV., Ch. I., §. 1.

³ See an excellent paper, by Mr. Cannan, on "The Origin of the Law of Diminishing Returns, 1813-15." — *Economic Journal*, March, 1892.

lands a necessity. Its truth seemed obvious then, and has usually been taken for granted since.

In manufactures,¹ on the other hand, it seems as if every increase in the amount of capital and labour applied will give a more than proportionate return. There seems no limit to the economy of labour or to the efficiency of auxiliary capital. Only allow time for new factories to be built and fresh labour to be trained, and, if the raw material were forthcoming, Lancashire would clothe the world with calico. Even with the same methods of manufacture, it seems probable that some saving in cost through the larger scale of production would take place also, and thus that the increase in production would be associated with an increasing return. Similarly, if we look to the "natural" progress of improvements in manufactures through the invention of new machines and processes, a still greater increase might be expected, and the second (dynamical) form of the law of increasing return seems even more firmly established than the first (statical).

Here, again, the progress of English manufactures since the industrial revolution towards the close of last century, seemed to confirm the results of the method of simple inspection. Those who enunciated the law of diminishing returns in agriculture, also contrasted with it the law of increasing returns in manufactures. Both laws seemed to be not only illustrated, but proved, by actual industrial conditions.

The observer of the present day, who looks back over the last hundred years, will find much to confirm the opinions of the earlier writers. In England, in the years 1770, 1850, and 1878, respectively, the yield of wheat per acre was 23, $26\frac{1}{2}$, and 28 bushels, respectively, and the price of bread per lb. was $1\frac{1}{2}d$, $1\frac{1}{4}d$, and $1\frac{1}{2}d$. In the same hundred years the prices of meat and butter were nearly trebled.² And yet, during the same period, very great improvements had taken place in agriculture generally.

¹ Ricardo, Ch. V.

² Caird's *Landed Interest*, Appendix.

A striking contrast is furnished by the cotton industry.¹ In 1779, yarn (40 hanks to the lb.) required in the process of manufacture, 14s. of labour and capital, in 1882, only 3½d., — that is to say, the cost has fallen to $\frac{1}{50}$ of what it was. In the meantime, the import of raw material (which seems the best test of the amount manufactured) has risen from about 6 million lbs. to nearly 1800 million lbs., — that is to say, about 300 times.² It is not then surprising that most economists have followed the example of Senior³ in enunciating as an inherent law of manufacturing industry, that in it increased production takes place at a smaller cost, — the law of increasing return, — whilst in agricultural industry, increased production takes place at a greater cost — the law of diminishing return. It is, however, worth while recalling the guarded language of Mill, with reference to Senior's statement: "I cannot think that even in manufactures, increased cheapness follows increased production by anything amounting to a law. It is a probable and usual, but not a necessary, consequence."⁴ And in the next section he shows that a similar criticism may be applied to the law of diminishing return in connection with agriculture and other industries engaged in raising raw produce. As a matter of fact, both laws, though apparently simple and axiomatic, are in reality extremely complex, and demand an inductive proof. The law of diminishing return, as more generally adopted, may be considered first.

§ 2. *The Law of Diminishing Return, as applied to the Production of Corn.* For the sake of clearness and definiteness of exposition, the law of diminishing return may, first of all, be explained by taking the particular case of English arable land, or more precisely, the case of the production

¹ Ellison's *Cotton Trade*, p. 61.

² *Ibid.*, pp. 49, 128.

³ *Political Economy*, p. 86.

⁴ Bk. IV., Ch. XI., p. 2. See, also, for a fuller criticism on the same lines, Sidgwick's *Principles*, Bk. I., Ch. VI.

of English wheat. There are several advantages in beginning in this way. In the first place, most writers — since the first statement of the law, — have, consciously or unconsciously, taken wheat or corn as typical; secondly, we know that from prehistoric times down to the present day corn has been grown in England,¹ and, thanks to the arduous labours of Thorold Rogers, we have for some six centuries, very full and accurate accounts of the prices and methods of production. Over such a period we ought to be able to give a real meaning to those much abused terms “ultimately” and “in the long run.”

In the statement of the pure theory it will be convenient to use the phraseology which has now been generally adopted. By land on the margin of cultivation, is meant that land which, under the existing *régime*, it just pays to cultivate; by the marginal dose of labour and capital, is meant the last portion which it just pays to apply; and by the marginal return, is meant the yield to this marginal dose. It is obvious that the marginal dose may be considered as that which is applied to the worst land in cultivation, or as the last addition to high farming on the better lands. “What we want to fix our minds on is the return to the marginal dose; whether it happens to be applied to poor lands or rich, does not matter; all that is necessary is that it should be the last dose which can be profitably applied to the land.”²

As is naturally suggested by the explanation of the terms just made, it will be advantageous to give to the law (in the case of arable land and wheat) two forms of statement according as we consider *first* a unit (say acre) of land of the same fertility, and *secondly*, the whole land of different qualities of any country or industrial area.

I. As applied to *one portion of land*, the law may be thus worded: “If to any piece of land (other things re-

¹ “From the earliest times wheat has been the customary food of the people of this country.” — *Rogers*, Vol. I., p. 26.

² Marshall's *Principles*, p. 210.

maintaining the same) labour and capital (of the same efficiency per unit) be applied continuously, beyond a certain point, the return per unit will diminish." In explanation, it may be remarked that the phrase "beyond a certain point" refers not to the time but to the quantity of the applications of labour and capital.¹ Thus, in the use of ammonia or other chemical manure, all that is meant is, that if more than a certain quantity is applied the benefit will begin to diminish, and, indeed, an excessive quantity would be absolutely injurious; whether much or little, however, is used, it may all be applied at the same time.

The other qualifying clauses which may seem to make the statement of the law unduly cumbrous are also really necessary. In saying "other things remaining the same," it is intended to exclude such changes as arterial drainage of the district, an alteration of climate through the destruction of forests and the like; in fact, it is assumed that the environment of the piece of land remains the same.

The assumption that the labour and capital considered are of the same efficiency per unit is practically equivalent to the assumption that the arts of production remain stationary. Thorold Rogers² has shown that in the thirteenth and fourteenth centuries the rate of seed sown to the acre was about the same as at present—in the case of wheat about two bushels. But the average yield per acre was, during that period, less than eight as compared with twenty-eight bushels under modern conditions. He shows further, that this increase in production is in the main due to improvements in the methods of cultivation; it is not wrung from the land by additional doses of labour and capital, with a continually diminishing return per unit.

¹ It is not implied that the land is always exhausted by the previous doses, though of course such a case may occur.

² *History of Agriculture*, Vol. I., Ch. III.

Sir James Caird¹ has given examples of changes in the methods of production of wheat in recent years. Thus the double-furrow plough, balancing itself with greatly less friction in proportion than the single plough, is found to do the same work with one man and three horses as two single ploughs with two men and four horses; a saving of 50 per cent in man power and 25 per cent in horse power. Examples might be multiplied indefinitely, but enough has been said to make clear the necessity of the qualification introduced. The law does not state even as regards the production of wheat on an acre of arable land, that once the point of diminish in return has been reached, an increase in production from this acre can, through all time, only be obtained at an increasing cost; but only that beyond a certain point, so long as the arts of production remain the same, the law will come into operation. Up to this point, as Turgot² clearly showed, every dose of capital and labour may give a greater return than the previous dose; that is to say, the law of increasing return may operate, but on a given portion of land, with certain methods of cultivation, a point will be reached at which the return will begin to diminish.

It may be pointed out further as regards the production of wheat with the same methods, that, when the return begins to diminish, it continues to decrease very rapidly, and indeed soon reaches the vanishing point. In fact, for practical purposes, the law really amounts to this: that with certain modes of cultivation only a limited amount of capital and labour can be applied to a piece of land. The conception of successive separate doses of capital, each with a corresponding return, separately marked off from those preceding, is apt to give very false impressions. It is often assumed, for example, that every additional dose must give some return; it is forgotten that the return would soon become negative or the labour positively injurious.

¹ *Landed Interest*, Ch. II.

² See Mr. Cannan's paper, referred to above.

It might be supposed that with the qualifications stated, the law of diminishing return in this simple form, as applied to a certain portion of land, is so palpably obvious, so axiomatic, that it could never have been overlooked. There is, however, probably no other economic law of the first importance which has so often been forgotten or miscalculated. Mill himself has bestowed extravagant praise on the ardour and perseverance of peasant proprietors, although it is certainly true that much of their labour is pushed far beyond the point of diminishing return, and is, from the economic standpoint, wasted.¹ Nor is it only the magic of property that gives the requisite stimulus to such thankless toil. Before recent legislation gave the Scottish crofters security of tenure and fair rents, they applied labour to the production of corn,—in this case barley or oats,—which in most cases had passed the point of diminishing return in the very first step taken. On the extreme northern coast, I have seen little patches of land cultivated with a waste of labour which could hardly have been surpassed by a peasant proprietor. The soil itself often barely covered hard rock; its properties were renewed by seaweed, which women carried up steep cliffs in creels on their backs. The land was dug up with the spade; the crop, generally half ruined by storms, was cut with the sickle in little handfuls. In sight of this wretched labour, the English smacks were making splendid fishing.

Nor is it only in production on a small scale that waste of this kind occurs. In this same county of Sutherland the late duke spent vast sums in reclaiming land, and in many cases the last state of that land has been worse than the first, the natural plants have vanished, and the corn and roots will not repay the planting.

In Scotland, generally, the farmers are probably the most enterprising and most efficient in the world; but it too frequently happens that they themselves apply, and in some cases induce their landlords to apply, capital be-

¹ See above, Ch. IX.

yond this point of diminishing return. In this case, there is generally a mistaken calculation ; but the mistake is often connected with a vague idea that any amount of capital judiciously expended on land must be profitable.¹

It will readily be conceded, however, that this too frequent neglect in practice of the law of diminishing return, with the consequent waste of effort, only emphasises the truth and importance of the law itself. But when the practical difficulties are set aside, and the law is guarded by the requisite hypothesis, the first thing that will probably strike the critical reader is, that a law precisely similar applies, not only to a piece of corn-growing land, but also to every form of auxiliary material capital, — buildings, machinery, and the like, — and applies equally to labouring cattle and labouring men. In a factory of a certain size, with certain methods of production, only a limited amount of capital and labour can be employed ; after a certain point is reached there will be a diminishing return to successive doses of capital and to additional pairs of hands. In a steam-engine, up to a certain point, the motive power will increase with every additional unit of coal burned ; but after this point is reached the return will diminish, and ultimately the fire may be choked or the boiler burst. A ship cannot be navigated at all without a certain number of sailors ; and in this case also it is easy to formulate a law of increasing return, which gradually merges into a law of diminishing return. Similarly, the food of horses and the food of men may be said to follow this same law (after a certain point) with regard to the efficiency of the labour which they perform.

If, then, the law as applied to land is to be something

¹ Mr. Cannan gives instances of the express denial of the law of diminishing return even in the form under consideration. Compare also the following passage from Malthus' *Essay on Population*, p. 377 : "As Lord Kaimes observes, a country cannot easily become too populous for agriculture, because agriculture has the signal property of producing food in proportion to the number of consumers."

more than a particular case of *μηδὲν ἄγαν*, and is of such peculiar importance as to deserve Mill's description of it as the most important proposition in political economy, we should expect to discover some peculiar property in which land differs from other forms of capital or instruments of production. Such a differential quality is found in the limited quantity of land, or more strictly of superior land.

In any single factory there is a limit to the advantageous increase of the labour and machinery employed; but, for practical purposes, the number of factories can be indefinitely increased, and equal quantities of labour and capital will give at least equal returns. If only time is allowed, old machinery can be replaced by new, and thus any advantage obtained by one factory will soon be open to others. But with land it is not so; the better land is limited and the differences in productive power are comparatively permanent.¹

Accordingly, in old countries in which all the land best adapted to agriculture or (to take the same example as before) to corn-growing has been taken up, the produce can only be increased so long as the arts of production remain the same, either by more intensive cultivation of that land (with the diminishing return already explained) or by more extensive cultivation in the recourse to inferior land.

The limit of intensive cultivation is soon reached, apart from improvements. As a matter of fact, in the case of wheat, it is probable that the land which yields fifty bushels an acre will cost no more and possibly less to cultivate than the land which yields only fifteen.² Accordingly, whether the increase in produce is a cause or an effect of the increase in population (a point to be discussed later), it can only be obtained, in the absence of improvements, by the cultivation of inferior land. Thus we arrive

¹ Take, for example, the slopes of a mountain from the plain to the summit.

² This was asserted by McCulloch in 1838.

at the second form of the law of diminishing return applicable to a country or industrial area embracing lands of different qualities. After a certain point is reached, every additional acre taken into cultivation, the arts of production remaining the same, gives a diminishing return to a given amount of labour and capital.

For the reasons already given, it is probable that the cultivation of the wheat-growing land of any country, after a certain stage, will *pari passu* become both more intensive and more extensive. A good example is furnished by the progress of American¹ agriculture. For a long period the fields were systematically cropped on the principle of obtaining the largest crops with the least expenditure of labour; very little capital was sunk in the soil in the way of improvement, and little was done to restore its fertilising ingredients. As a consequence, the land long occupied gradually lost its fertility, and recourse was made to more distant fields of virgin freshness. Distance, it may be observed parenthetically, is economically as much a species of inferiority as is comparative sterility, for it increases the cost of marketing the produce, and the cost of procuring the articles which the land and the labourers require. As the margin of cultivation was pushed further westward, in the lands over which "the shadow of partial exhaustion" had passed, the systematic agriculture of an old state was introduced; deeper ploughing, better drainage, and natural and chemical fertilisers were employed to bring up and keep up the pristine fertility. In a word, the extension of the margin to new lands was accompanied by corresponding intensity of cultivation on the old lands.

It has already been implied, but the point deserves additional emphasis, that the term "inferior" as applied to land will vary with the agricultural *régime*, that is to say,

¹ Walker, *Land and its Rent*, p. 47, note. See also the report of the Swedish traveller Kalm, in 1749, quoted by Adam Smith, p. 103, McCulloch.

with the arts of production and skill of the cultivators. In the earliest times the slopes of hills were the most favoured lands. In the valleys and beside rivers and streams the power of nature was too great for primitive man. The best land was the hill-top, and the margin of cultivation crept slowly downwards into the woods and marshes. And as the margin extended the intensity of cultivation was increased; it is probable that many of the terraces to be seen on the high ground in various parts of Britain were constructed with infinite trouble by some pre-Aryan tribe, just as at present they are in China.¹

The high land was considered superior in these early times, not only on account of the methods of cultivation, but by reason of situation; for the hill-tops and headlands were most easily defended, and, if the phrase may be used, were the centres of population.

During the present century changes have taken place in England and France, by which the inferior land has really become superior, although it is still sometimes from old association described as poor land.²

Without anticipating, except in a very elementary manner, the theory of value, it may be pointed out that the margin of cultivation will advance or recede, other things being equal, according to the demand, which again is practically expressed by the price. Thus, recently in England, under the influences of the low prices caused by foreign competition, the area of arable land devoted to wheat has been considerably contracted. The inferior lands, for this purpose, have gone out of cultivation.

If, as throughout this section, the attention is confined to one kind of produce (wheat), we may consider the rent which must be paid to acquire fresh land for this purpose as an element in the cost of production.³ Thus the diffi-

¹ Gomme's *Village Community*, Ch. IV.

² See Porter's *Progress of the Nation*, Sec. II., Ch. I., p. 152; and Passy's *Systèmes de Culture*, Ch. II.

³ This particular assumption, as will be explained in treating the theory

culty of extending the margin of cultivation may lie in the fact that the land is being used for something else and is paying a high rent. Under the pressure of high prices, however, this difficulty may be overcome. Thus it may become profitable for the time at any rate—as was too often the case early in the century—to break up old pasture to grow corn. In this case the land would not be inferior, except in the economic sense of bearing this burden of rent, due to peculiar qualities.

Sir James Caird¹ has shown that in time of war the production of wheat in England might be largely increased, both by the intensive and the extensive methods. By the use of various manures, especially nitrate of soda, two or more corn crops might be taken successively from the same land. “If all Europe were shut against us we should be quickly able to meet the increased home demand, by double-cropping to the extent of one-tenth of our corn-land.” Apart from this resource, we have an immense reserve power of cereal productions stored up in our pasture lands, which in case of need, as evinced by high prices, can be broken up for tillage.

Before proceeding to notice the application of the law of diminishing return to other kinds of produce, the argument of this section may be briefly summarised. Whether we consider an acre of land or a whole country, after a certain point is reached, the return to a given amount of labour and capital will diminish. It will do so, however, only under the supposition that the arts of production, using the phrase in the broadest sense, remain stationary.

So far, then, the law gives no countenance whatever to the assertion that in the course of time, or with the progress of population, or more generally, “ultimately and in

of rent, does not conflict with the general proposition that (under certain hypotheses) price determines rent, and not rent price. See *infra*, Bk. II., Ch. XIV.

¹ *Landed Interest*, Ch. II., p. 19.

the long run," the absolute cost¹ of production of corn must increase, or that the marginal return to the marginal dose of capital must diminish. What may happen at the end of time is a matter for prophecy and beyond the range of science, and whether in the historical past or the calculable future, this has been or will be the case, depends upon the resultant of a number of very complex causes. Some of these will be discussed in the next chapter on the theory of population; and some will be noticed immediately in considering how the law of diminishing return may be counteracted. In the meantime, the difficulty may be illustrated by reference to one or two eminent authorities. Adam Smith² says that in every different stage of improvement, the raising of equal quantities of corn in the same soil and climate, will, on an average, require nearly equal quantities of labour. The reason he gives is, that the increase in the productive powers of labour will be more or less counterbalanced by the increasing cost of cattle, the principal instruments of agricultural production. On this passage, Thorold Rogers observes, that far greater quantities will be obtained by far less labour as agriculture improves, and supports his opinion by an appeal to history. Mill, when actually discussing the point,³ says, that the answer depends on the conflict of the two antagonist agencies, increase in population and improvements in agricultural skill, and allows that in some, perhaps in most, societies both are stationary or nearly so, and that, therefore, the cost of production of food is, also, nearly stationary. In general, however, he writes as if weighed down by the conviction that population will increase at such a rate as to increase the cost of production of food; and most of his errors in the treatment of the wages question and the distribution of wealth may be traced to this exaggerated dread.⁴

¹ For the full explanation and limitation of this phrase, see *infra*, Bk. III.

² Bk. I., Ch. XI., p. 198, edition Rogers.

³ Bk. IV., Ch. II., p. 3.

⁴ See *infra*, § 4, and also next chapter.

§ 3. *The Law of Diminishing Return as applied to Other Kinds of Raw Produce.* As regards most forms of agricultural produce, the law of diminishing return may be stated in similar terms and with similar conditions as in the case of corn. The principal differences that arise are of importance not so much with respect to the relative amounts as to the relative values of the various sorts of produce. When land is abundant, and may be regarded economically as free, cattle and sheep can often be reared with very little labour and expense. An ox¹ may be had for the trouble of catching it, and sheep² may be more valued for their wool than for mutton. As a rule, the pastoral stage precedes, at any rate in importance, the cultivation of land for cereals, the expense of the latter being very much greater. When, however, land has been fully occupied, relatively to the stage of civilisation, the demand for meat brings into play the law of diminishing return. Various roots and grasses are grown solely for the food of animals, and they are reared on an "intensive" system in comparatively small spaces. A modern dairy farm is almost like a factory in which raw material is worked up.

Again, the most distant and barren moors are brought into use for sheep; bogs are drained, dangerous places fenced, more labour is employed in herding, and the sheep are taken to the low grounds to winter on turnips. By these and similar methods the number of sheep in Scotland, for example, has, during the present century, been very largely increased, but the increase has taken place at an increasing cost.

Vineyards afford a good example of the law. Vines more than any plants appear to be affected by the nature of the soil, and in consequence the cultivation of the most favoured spots is pushed to the highest degree of intensity. *Pari passu* inferior wine is grown on inferior

¹ See Adam Smith's reference to Buenos Ayres for cattle. Bk. I., Ch. XI., p. 68, McCulloch.

² *Ibid.*, p. 106, to Spain for sheep.

soils.¹ In this case the law of diminishing return may be said to imply a diminution of quality rather than of quantity. In other forms of produce, *e.g.*, in the cultivation of various flowers and fruits, the law appears in the extra cost involved in improving the quality or in creating new varieties.

The raw materials of clothing are derived partly from plants, *e.g.*, cotton, or flax, etc., partly from animals, *e.g.*, wool, skins, hair, etc. The former resemble other agricultural products, but the latter are often, as Adam Smith calls them, "appendages" to other sorts of rude produce. In the case of these "appendages" the law must be supposed to apply to the joint product. It is thus possible that, owing to the greater demand for one component and the limited demand for the other, the cost of the latter might fall greatly. This, from a variety of causes, has recently happened in the case of English wool.

Timber and fuel can, as a rule, in early stages of society, be obtained with little real cost. Forests are in new countries often looked upon as encumbrances to be removed in any manner. In process of time forestry becomes an important art, and the law of diminishing return applies both extensively and intensively.

Even in many sea-fisheries the law seems to apply. In the herring fishery, for example, the fish are caught at greater distances from the shore, and the boats are larger and better equipped. The same tendency is shown still more clearly in the case of whales and seals.

Mines and quarries are subject to the law in a peculiar manner. If the necessary labour and capital are forthcoming production can be increased without a corresponding marginal diminution, that is to say, as soon as the

¹ "That the vineyard, when properly planted and brought to perfection, was the most valuable part of the farm, seems to have been an undoubted maxim in the ancient agriculture. But whether it was advantageous to plant a new vineyard was a matter of dispute among the ancient husbandmen, as we learn from Columella." — Adam Smith, Bk. I., Ch. XI.

period of transition is over. But over a term of years the original sources may be utterly exhausted, and then recourse must be made to inferior sources of supply. Analogous cases are furnished by the exhaustion of the natural fertility of land, and by fresh water fisheries and wild animals where care is not taken to keep up the stock.

It will be seen from this enumeration of various kinds of typical raw produce, that the law of diminishing return operates in different modes and degrees in different cases. If we refer to the historical past we shall find that in some instances — *e.g.*, meat, milk — the marginal return has considerably diminished, and that the law holds good dynamically. In other cases, if we contrast long periods, the reverse is the case, as, for example, in most mineral produce, in which the arts of mining and advances in practical geology have more than compensated the exhaustion of the best seams or ores. Even in this case, however, it is true to say that in the absence of discoveries of new mines, and with the same extractive arts an increase of supply will involve an increasing cost — that is to say, the law holds good statically.

With regard to the general law of diminishing return that is as applicable to all sorts of raw produce, the best evidence as to the extent and degree of its operation is to be found in the course of prices. Allowance must of course be made for any exceptional conditions of demand or supply, and also (especially over long periods) for changes in the general purchasing power of money. Various theoretical difficulties involved in the calculation will be discussed at a later stage,¹ but for the present purpose a rough comparison of mediæval and modern prices will be sufficient to illustrate the argument. According to Thorold Rogers,² in comparing present prices with those of five hundred years ago, we ought to multiply the latter by eight at least, and more probably by twelve, or even some

¹ *Theory of Value and Prices. Infra*, Bk. III.

² *History of Agriculture*, Vol. I., p. 259.

higher figure, to allow for the change in the general purchasing power of money. Taking the lowest multiplier, namely, *eight*, and converting mediæval prices accordingly, we find the average prices of the fourteenth century, compared with the average of the last ten years'¹ work, as follows: In the earlier period wheat was about one-third dearer than at present; wool was three times as dear; iron, eight times, and for a considerable period sixteen times; tin, two to three times; lead, four to six times; and tallow, three to five times. Meat, on the other hand, was probably one-fourth of its present price, although the difference in quality to some extent neutralised this apparent advantage. The price of fish was generally very high, and foreign produce of all kinds was also very dear.

The evidence of a more direct character as regards quantities confirms the results of the comparison of values. The amount of wheat produced per acre was about one-third of the present average; cattle and sheep were very small; artificial grasses and roots for winter use were unknown. In fact, although probably the same number of people were employed in agriculture, — at that time the great bulk of the population, — the return to their labour was at the most one-seventh of what it is at present. The proportionate returns to mines and fisheries, and the other extractive industries, were still less than in agriculture.

We are now in a position to see more clearly the necessity of stating the law of diminishing return as a tendency, which is constantly liable to be counteracted. If in a limited time, under certain conditions, it is necessary to increase the supplies of raw produce, the law will no doubt act sharply, as in the period of English agriculture, to which attention has already been directed; but we have no right to assume that in the course of time the general resultant of the complex forces at work will be to give a lessened reward to the same quantity of labour. I pro-

¹ For mediæval prices I have taken Rogers' tables, Vol. I.; for 1882-91, those of Sauerbeck in the *Statistical Journal*.

ceed to notice the principal counteracting causes in the most important case, namely, the food supplies of a nation.

§ 4. *How the Law of Diminishing Return may be counteracted.* The chief practical importance of the law of diminishing return in agriculture arises in reference to the conditions under which a nation can obtain its food supplies, especially with an increasing population. It is on this subject that Mill, under the influence of Ricardo,¹ made the gravest error in his work, an error which vitiated the larger part of his treatment of the wages question. Poverty and low wages² he ascribed almost entirely to over-population, and by over-population he meant the pressure of population on the means of subsistence, with the consequent recourse to inferior lands or more niggardly processes.

"When," says Mill, "for the purpose of raising an increase of produce recourse is had to inferior land, it is evident that so far the produce does not increase in the same proportion with the labour. The very meaning of inferior land is land which with equal labour returns a smaller amount of produce."³

In this sentence, however, he overlooks the fact that inferiority is purely relative; his assertion is true only on the assumption that the arts of agricultural production are absolutely stationary.

It is perfectly true — and I hasten to admit — that Mill himself goes on to give what is probably the most complete account yet published, of the modes in which this law of diminishing returns may be counteracted. The law itself, he states explicitly, is a tendency which may be and sometimes is for long periods held in check. The resultant effect does not depend on a single principle, but on two antagonising principles, and the agency in constant antagonism to the law of diminishing return is no other than

¹ Ricardo's *Principles*, Ch. II., "On Rent."

² Cf. Mill, Bk. II., Ch. XIII., and Bk. IV., Ch. III., IV.

³ Mill, Bk. I., Ch. XII., and § 2.

the "progress of civilisation." This expression Mill proceeds to expand into a series of important influences. There are agricultural improvements which enable the land to yield a greater absolute produce without an equivalent increase of labour, *e.g.*, the disuse of fallows by rotation of crops, the introduction of new roots, better knowledge of manures, improved breeds of cattle, etc. There are next improvements which diminish the labour required without increasing the capacity of the land to produce, *e.g.*, new machinery, more skilful economy of labour and capital. There are improvements also in the means of communication, which diminish the cost of instruments and materials, and also the cost of completing the act of production by putting the commodity in the hands of the consumer. This leads up to the mechanical inventions which apparently have no direct bearing on agriculture, but which enable a given amount of food to be obtained with less labour, *e.g.*, new modes of working iron, improvements in mills, etc. Then a still broader view is taken of the whole industry of a country, and it is maintained that, even if the efficiency of labour in agriculture were to diminish, still, from the national point of view, that of other industries might more than proportionately increase, so that on the whole the country would, even as regards its food, have more abundant supplies; the food might be dearer, but there would be more to buy it with, and the benefit might even extend to the poorest class. Thus Mill arrives at the position that there is no possible improvement in the arts of production (*i.e.*, not of agriculture only, but generally) which does not in one or another mode exercise an antagonist influence on the law of diminishing return to agriculture. Even yet the climax of the conclusion has not been attained, for we are further assured that improvements in government and almost every kind of moral and social advancement operate in the same manner, *e.g.*, improvements in land laws, in education, and in the friendly relations of capital and labour. Finally, we

are told that there is scarcely any possible amelioration of human affairs which would not, among its other benefits, have a favourable operation, direct or indirect, upon the productiveness of industry.

Surely in the whole range of social philosophy it would be difficult to discover a more striking instance of the overbearing influence of a dominant idea. In spite of the enumeration of counteracting causes, of which the above is an incomplete summary, Mill introduces the whole question with an emphatic passage which leaves no doubt as to the impression the law of diminishing return had made upon his own mind: "This limited quantity of land and limited productiveness of it are the real limits to the increase of production. That they are the ultimate limits must always have been clearly seen. But since the final barrier has never in any instance been reached; since there is no country in which all the land capable of yielding food is so highly cultivated that a larger produce could not (even without supposing any fresh advance in agricultural knowledge) be obtained from it, and since a large portion of the earth's surface still remains entirely uncultivated, it is commonly thought, and is very natural at first to suppose, that for the the present all limitation of production or population from this source is at an indefinite distance, and that ages must elapse before any practical necessity arises for taking the limiting principle into consideration. I apprehend this to be not only an error, but the most serious one to be found in the whole field of political economy. The question is more important and fundamental than any other; it involves the whole subject of the causes of poverty in a rich and industrious community." Further criticism of this position may be deferred to the chapter on the theory of population.

§ 5. *The Law of Increasing Return.* The law of increasing return is the exact counterpart of the law of diminishing return, and requires to be stated with similar limitations and hypotheses. Adam Smith introduces the advantages

of division of labour by calling attention to the "great *increase* of the quantity of work which, in consequence of the division of labour, the *same number* of people are capable of performing." This may be considered as the simplest form of the law of increasing return; given a certain amount of labour and capital, the return increases by dividing the work to be done in a more economical manner. So far, then, the law is practically a summary statement of the principle of division of labour, and whenever this principle can be adopted or extended an increasing return is forthcoming.

Thus under certain conditions we may have an increasing return to the labour and capital devoted to agriculture.

Recent writers, however, have in general stated the law not so much with reference to the better employment of a *given amount of labour* and capital, as with reference to the results of employing additional amounts in any industry. In this form the law may be thus expressed: Under certain conditions every additional unit of productive power gives more than proportional returns. This it does by rendering possible various internal and external economies (to adopt Professor Marshall's quasi-technical language) which on a smaller scale could not be carried out. American economists in particular, under the influence of the conditions of progress in their own country, have laid great stress on the importance of a growth in numbers, on the ground that the average earnings and the productive capacity of the people would increase; especially in the case of agriculture they maintain that as population becomes more dense it is possible to make improvements in roads and the means of communication generally, and these, as Adam Smith said, are the most important of all agricultural improvements.

English economists, on the other hand, under the influence of the extraordinary development of manufactures during the present century, have been inclined to suppose that the law applies in a peculiar manner to manufactures;

that in manufacturing industry its action is normal and constant, whilst in agriculture and the extractive industries its action is only occasional and intermittent.

There is reason to believe, however, that those who lay stress on the increasing return in manufactures, as contrasted with the diminishing return in raw produce, have unconsciously included in the one case and excluded in the other a hypothesis of vital importance. They have assumed, namely, that in manufactures the progress of invention in mechanical and chemical processes will be continuous and indefinite, whilst in raw produce improvements in production will be comparatively unimportant and intermittent. But invention is a very different thing from economy, whether external or internal, and we have no right to assume that invention will be increased as a necessary consequence of that division of labour and production on a large scale. It is quite possible, and in my opinion it is probable, that during the next century, owing to the advances of chemistry and other practical sciences, the progress of invention may be more marked in the acquisition of raw produce than in its manufacture.

Adam Smith,¹ in treating of the fall in the price of manufactures, is careful to state that the natural effect of *improvement* is to diminish gradually the real price (*i.e.*, the labour required) of *almost* all manufactures, and he expressly mentions the use of better machinery. He points out the remarkable improvements in the manufacture of the coarser metals during the seventeenth and eighteenth centuries, but he adds that in the clothing manufacture there had been no such progress, and that the division of labour and the machinery employed were practically the same in his day as a hundred years before. Since his time, however, the improvement in the manufacture of woollen cloth has been as remarkable as in any industry.

The astonishing increase in the productive power of labour and capital in cotton-spinning has already been

¹ Bk. I., Ch. XI., p. 112, McCulloch.

alluded to, but it is hardly conceivable and much less probable that during the next hundred years the return will increase in a corresponding degree. It is interesting to observe that even during the last forty years the price of raw cotton has fallen more than the price of cotton yarn and cotton cloth.¹

In conclusion, it must be observed that the division of material wealth into "raw produce" and "manufactures," though intelligible and useful when extreme examples are taken (*e.g.*, wheat and cloth), is in many cases inapplicable. Even wheat, before it is consumed in the shape of bread, is subjected directly and indirectly to a number of mechanical processes, but we do not naturally look on bread as a typical manufactured article; and the same observation applies to houses, ships, roads, fences, docks, and many other important commodities. Logically, every species of raw produce requires some labour for its adaptation to man's use—the standing corn must be cut and carried, and the coal at the pit's mouth must be distributed; similarly, every species of manufacture requires indirectly a certain amount of raw produce of various kinds as well as its own particular raw material. Accordingly, in all cases we have to compare the possible economies and improvements in labour and capital with the possible limitation of natural resources before we can say that production will follow the law of increasing or the law of diminishing return. Whether a nation as a whole has reached the point at which any increase of population will involve a diminishing return to its general productive power, can only be determined by a difficult inductive inquiry. Some of the general principles which must serve as guiding hypotheses will be considered in the next chapter.

¹ See the "Economist," Index Numbers, in the *Commercial Review*, for 1891—in the issue of 20th February, 1892. If the average prices for 1845–1850 be taken at 100 in each case, then on 1st January, 1892, the price of raw cotton was 73, of cotton yarn 82, and of cotton cloth 84.

CHAPTER XI.

THE PRINCIPLE OF POPULATION.

§ 1. *The Work of Malthus.* The scope and limits of this work do not in general admit of a historical account of the development of theories; and, as a rule, I must content myself with the statement of principles without regard to their origin. In the case of the principle of population, however, an exception may be made on various grounds. There is no part of the subject which has been so much misunderstood, and no economist of the first rank has been so utterly misrepresented as Malthus. The *Essay on the Principle of Population* in its final form, is one of the best examples of the inductive method, and it is of special interest at the present time, when theories of equality are again in the ascendant. The essay in its original shape was suggested, as the author himself states, by a paper by Godwin;¹ and its primary object was to show that the speculations on the perfectibility of man and society which at that time (A.D. 1798) were in the air broke down through failing to take account of the natural increase of population. In this first form the essay was mainly theoretical and was certainly imperfect, but in the course of successive editions Malthus introduced a vast amount of material collected from the past and present state of society in various parts of the world. The result of this elaborate process of verification was not only to make at least one

¹ It is interesting to compare with this statement the last note in the appendix to the last edition, 1825, p. 527: "The answer of Godwin, both in matter and manner, is such as not to require a reply."

alteration of fundamental importance in the original theory, but to place the whole argument on a different footing. The critique on schemes of equality was retained with an apologetic justification, first, because "when paradoxes of this kind are advanced by ingenious and able men, neglect has no tendency to convince them of their mistakes,"¹ and secondly, because "it is probable that if the world were to last for any number of thousands of years, systems of equality would be among those errors, which, like the tunes of a barrel-organ, to use the illustration of Dugald Stewart, will never cease to return at certain intervals."² The following passage, taken from Malthus' criticism of Condorcet,³ furnishes an illustration, which at the present day, with our proposals for old-age pensions, and the extension of the use of state credit, needs no comment. "By the application of calculations to the possibilities of life and the interest of money, he proposes that a fund should be established which should assure to the old an assistance produced in part by their own former savings, and in part by the savings of individuals who, in making the same sacrifice, die before they reap the benefit of it. The same or a similar fund should be given to women and children who lose their husbands and fathers. . . . Going still further, he says, that by the just application of calculations means might be found of more completely preserving a state of equality by preventing credit being the exclusive privilege of great fortunes, and yet giving it a basis equally solid, and by rendering the progress of industry and the activity of commerce less dependent on great capitalists."⁴ But although the critique was retained, the emphasis was readjusted, and, as Dr. Bonar points out even on the title-page in the extended description of the essay, the lettering of the

¹ The references are to the seventh edition (Reeves and Turner, 1872).

² p. 282.

³ p. 264.

⁴ See also the discussion in the appendix on the system of small holdings, and the "one or two acres and a cow" proposal.

inquiry into the future becomes smaller and fainter, whilst that of the view of the past and present becomes larger and blacker.¹ If Darwin had published his first idea of the origin of species without the labour of collecting voluminous proofs, his work—that is to say, in its constructive method—would have corresponded closely to the first edition of Malthus; as he chose to wait some seventeen years, it corresponds to the last.

The comparison between Darwin and Malthus both in matter and method is very instructive, but it is a mistake to suppose that the principle of population is one case of the wider Darwinian theory. The truth is, though it has, I believe, been generally overlooked,² that although Malthus suggested to Darwin the leading idea of his theory, as a matter of fact, he himself was definitely opposed to Darwin's conclusion. He admits that there may be variations within certain limits, alike in man, animals, and plants, but the limits, in his view, are real and insurmountable—they may be undefined but they cannot be indefinite. Speaking of men, he says: "Whether intellect could be communicated, may be a matter of doubt; but size, strength, beauty, complexion, and, perhaps, even longevity, are in a degree transmissible. The error does not lie, in supposing a small degree of improvement possible, but in not discriminating between a small improvement, the limit of which is undefined, and an improvement really unlimited." And again, more generally: "It cannot be true, therefore, that among animals, some of the offspring will possess the desirable qualities of the parents in a greater degree, or that animals are indefinitely perfectible."³ Similarly, Malthus gave no countenance to the opinion that in mankind the struggle for existence would lead to the sur-

¹ *Malthus and His Work*, p. 86. This admirable work gives by far the best account of Malthus with which I am acquainted. In the present chapter I have been much indebted to it.

² See Dr. Bonar's work, p. 46.

³ *Ibid.*, p. 269.

vival of the fittest, and that the ultimate product would be the highest civilisation. On the contrary, he draws a distinction not only in degree, but in kind, between the intelligence and morality of man and of other animals, and the progress of man he ascribes to the conquest by his superior attributes of those lower animal propensities.¹

The resemblance between the two writers is to be found not in the matter of their conclusions, but in the method of their research. Each started with a guiding principle, but neither, to adopt Malthus' description of his own work, entrenched himself in an impregnable fortress of abstraction and hypothesis; on the contrary, both wandered in search of facts over the large field of experience. Malthus discovered and enumerated the principal causes that affect the actual growth of peoples; similarly Darwin investigated the actual growth of species. It is a curious and suggestive fact that Malthus, who took *a priori* views of animals and plants, denied the theory of Darwin, whilst Darwin, who, in respect to man's higher nature, was equally *a priori* in reality, denied the theory of Malthus.

Like all great writers, Malthus was influenced, not only by the speculative thought, but by the social conditions of his time. The work was composed in the cumulative manner described during the period² when the English Poor Law was gradually bringing to maturity the evils which are so graphically portrayed in the celebrated Report of the Commissioners in 1834. Without entering into the general discussion of poor relief, which will be taken up at a later stage,³ it may be stated that the governing principle during this period was that the people, who, in the words of Pitt, had enriched their country with a number of children, should receive relief as a matter of right and honour. Even Adam Smith had declared that

¹ Compare Sir A. Mitchell's *Past in the Present*, Part II., § 2: "How does the law of natural selection affect men?"

² First edition published in 1798, sixth in 1826.

³ See *infra*, Bk. II., Ch. XII., especially with reference to Pitt.

the best sign of the prosperity of a country was a rapid increase of population. It must be remembered that during the period in question, the country was engaged in a great war, and a large population was looked upon as a political necessity. Accordingly, when Malthus set himself to prove that the Poor Laws had done much more harm than good, and ought to be gradually abolished, and when he boldly asserted that, "it is not the duty of a man, simply to propagate his species, but to propagate virtue and happiness, and that if he had not a tolerably fair prospect of doing this, he is by no means called upon to have descendants," he struck straight at notions universally prevalent, and his teaching was branded with opprobrious epithets. Just as Darwin shocked traditional theology regarding the origin, so Malthus offended it in respect of the continuance, of the human species. Those who think that the principle of population is an obvious truism would do well to take note of the controversy which its enunciation excited, and those who imagine that Malthus ever wrote anything opposed to common sense morality should do his memory the justice of reading the essay itself. No man has ever suffered so much from being answered by those who have never seen a line of his works.¹

§ 2. *The Principle of Population.*² Malthus commences his essay by saying that it would be beyond the power of any individual to enumerate all the causes that have influenced or retarded human improvement, and that the principal object of his work is to examine the effects of one great cause intimately united with the very nature of man, namely, the constant tendency in all animated life³ to increase beyond the nourishment prepared for it. In this passage he disposes by anticipation of two shallow but common criti-

¹ Dr. Bonar gives some unique examples, especially from the clergy. Bk. III., Ch. IV.

² The argument is based on the final edition.

³ The tautology is that of Malthus.

cisms. In the *first* place the tendency to increase is stated as applicable to all animated nature — to plants as well as to animals. In a short time, as he points out, if the whole world were vacant, it would be covered by the growth of a single plant, *e.g.* fennel, and if the germs of existence contained in the earth could freely develop themselves, they would fill millions of worlds in the course of a few ages.¹ It may then be objected that the materials of food, *e.g.* wheat and sheep, tend to increase even faster than mankind.² But the answer is plain. Mankind cannot live upon tendencies and hypotheses; and if wheat and sheep were left to themselves the supply would soon fail.

Secondly, Malthus at the very outset guards himself from the imputation which he has so frequently incurred of ascribing all the ills of life to the one cause that he has investigated. It is Mill, the disciple, and not the master himself, who is guilty of exaggerating the evil effects of the principle. Malthus went no further than to say that all society can reasonably require of its members is that they should not have families without being able to support them, and that every restraint beyond this must be considered a matter of choice and taste.³ Accordingly, he gave his opinion that there was not much need to change the notions prevalent on the subject of marriage and children in the higher ranks of society. Mill,⁴ on the other hand, writes with the ascetic fervour of a monk: "Little improvement can be expected in morality until the producing large families is regarded with the same feelings as drunkenness or any other physical excess. But while the aristocracy and clergy are foremost to set the example of this kind of incontinence, what can be expected from the poor?"

¹ *Essay*, p. 2.

² Malthus himself pointed out that wheat could increase sixfold and sheep twofold in a single year.

³ *Essay*, p. 43.

⁴ *Principles*, p. 226.

Whether it would be a good thing for society that its most wealthy and best educated members should set the example of small families to the poor and uneducated may be a matter for argument; *prima facie* it may be urged that the contrary custom would be more conducive to the more equal distribution of wealth and to the development of higher types of humanity, and it is not very probable that the example would be followed, even if it were set. One thing, however, is certain, namely, that Malthus himself did not adopt this view of moral restraint any more than he adopted the view, with which he is popularly credited, of vicious indulgence. "That an increase in the population," — these are his words — "when it follows in its natural order, is both a great positive good in itself and absolutely necessary to a further increase in the annual produce of the land and labour of any country, I should be the last to deny." It is not, in his opinion, immoral to have a large family, if there is a reasonable prospect of providing means of support; the immorality of imprudence only arises when marriage is entered on with no such prospect.

The principle of population is, however, best treated as a problem not of domestic but of political economy. We shall make little progress by expanding the commonplace — man is a rational animal — and balancing reason against instinct; to discover what laws govern the growth of the members of a state, we must appeal, as Malthus does, to the past and present conditions of actual — not hypothetical — societies.

The theory, as summarised by Malthus himself, is given in three propositions and a qualification.¹

The first of these propositions, namely, that population is necessarily limited by the means of subsistence, is obviously true. It is, perhaps, worth noting that the means of subsistence must, in general, include something more than food and drink; as, for example, protection against

¹ See the general summary, *Essay*, p. 261, and note.

the powers and pests of nature.¹ In any case, however, it is perfectly clear that the supply of food actually available, imposes an absolute limit to any advance in population; and the law of diminishing return to land, shows that under given conditions this supply can only be increased with increasing difficulty.² Thus the mathematical analogy of Malthus is justifiable—that whilst population may increase in a geometrical,³ food can only increase in an arithmetical, ratio. Even in this axiomatic position, Malthus is not content with an *a priori* statement. He compares the increase of population, when left to exert itself “with perfect freedom,” with the rate of increase in the productions of the earth under the most favourable circumstances of *human industry*. Perfect freedom of expansion has, of course, never existed, but an approximation is found in the English settlements in North America. In these states, where the means of subsistence have been more ample, the manners of the people more pure, and the check to early marriages fewer than in any of the modern states of Europe, the population has been found to double itself for above a century and a half, in less than twenty-five years.⁴ In some parts, the population has doubled itself in fifteen years, and even less. Accordingly, if the means of subsistence are forthcoming and people follow their natural inclinations as regards marriage and rearing children, we are clearly within the mark in saying that population can easily double itself in twenty-five years. But the facts already considered show that, without radical improvements, the food available to human industry

¹ Fuel especially is of importance. See Roscher, Bk. V., § 239.

² See the last chapter.

³ The terms are used, not strictly, but as the basis of a simile.

⁴ *Essay*, p. 3. During the last hundred years the population of the United States has increased about sixteen-fold, — that is at about the same rate of increase. In a later note Malthus states that the population of the States, from the earliest settlements to 1800, doubled itself in less than twenty years.

cannot, after a certain point has been reached, be increased in the same proportion with equal rapidity.

Improvements, no doubt, have been made in the past, and probably will be made in the future, especially through the development of the means of communication and the consequent possibility of drawing upon the supplies of unexhausted regions. We may go further and say, that unless such improvements had taken place in the past, the actual increase of population in old countries would not have been possible; the birth-rate might have increased, but the death-rate would have counterbalanced it. The increase of food must in reality precede the increase of population, for the needs of the present cannot be met by the prospects of the future. What the first proposition really amounts to, then, is this: that in any society, more children cannot be reared to a healthy maturity than the means of subsistence at the command of the society will permit. Children under ten¹ years (at the lowest limit) must depend for their livelihood on the exertions of their parents, or on public or private charity.

The consideration that the increase of food must precede the increase of population, naturally leads up to the second proposition in the Malthusian theory: "Population invariably increases when the means of subsistence increase, unless prevented by powerful and obvious checks." This second proposition is given with an important qualification. By an increase in the means of subsistence is always meant such an increase as the mass of the people can command. An increase might take place which, in the actual state of any particular society, would not be distributed to the lower classes, and consequently would give no stimulus to population; the food might be given, for example, to domestic animals, or to celibate clergy. In this statement Malthus follows Adam Smith. "Every species of animals naturally multiplies in proportion to the means of their subsistence, and no

¹ This is the figure taken by Malthus.

species can ever multiply beyond it. But in civilised societies it is only among the inferior ranks of people that the scantiness of subsistence can set limits to the further multiplication of the human species.”¹

It is plain that this second proposition, even with the qualification appended, requires an inductive proof, and it is in furnishing this proof that Malthus makes a real advance upon Adam Smith. It is this second proposition which in general has been most overlooked or misunderstood. Malthus does not state that if population increases there will necessarily be an increasing pressure on the means of subsistence, but that if the means of subsistence increase, population will increase, unless the tendency is counteracted or suppressed by certain powerful checks. The actual growth of population is the resultant of these antagonistic forces. By a wide survey Malthus shows that some of these checks have always been in operation, and he arrives at the conclusion that such a restraining influence must always be present.

The question then arises, What are these checks? and the answer is given in the third proposition.² “These checks and the checks which keep the population down to the level with the means of subsistence are moral restraint, vice, and misery.” The ultimate check he explains³ is a want of food, but this *ultimate* check is never the *immediate* check except in cases of actual famine. Famine, however, is comparatively rare, and consequently the immediate checks must be sought in other conditions. Such are all those customs and all those diseases which seem to be generated by a scarcity of the means of subsistence, and all those causes independent of this scarcity, whether of a moral or physical nature, which tend prematurely to weaken and destroy the human frame.

These checks may be divided into two great classes, namely, those which diminish the birth-rate, and those

¹ *Wealth of Nations*, Bk. I., Ch. VIII.

² *Essay*, p. 261.

³ Ch. II., p. 6.

which increase the death-rate; the former are styled preventive, the latter positive. The preventive checks are, speaking broadly, either of the nature of moral restraint or of vice. The phrase "moral restraint"¹ is used in a very restricted sense, as equivalent merely to abstinence from marriage not accompanied by irregular gratifications. The preventive checks that come under the head of vice are found to exist in the lowest stages of barbarism and in the highest stages of civilisation.

Of the positive checks, some arise unavoidably from the laws of nature, as, for example, from the inclemency of the seasons or the exhaustion of natural resources. To these the name of "misery" is specially applied. Other positive checks, however, are partially or wholly the result of vice, such as wars, overcrowding, and excesses. For the illustration and the inductive proof of the operation of these various checks, the reader must refer to the essay itself;² he will be repaid by the correction of many natural but erroneous opinions. The permission of infanticide,³ for example, is shown to increase in general the population of a country (as in China); for by removing the fear of too numerous a family it encourages marriage, but when children are born the natural instincts for preserving them are too strong except in extreme necessity. Slavery,⁴ again, is shown to be unfavourable to propagation, and countries in which the masses are slaves are less populous than those in which they are free. The laws passed in ancient times for the encouragement of population are shown to have been not the cause of increase, but rather effects of deficiency of numbers. Similarly⁵ it is stated, that whilst scarcity and extreme poverty may or may not accompany an increasing population according to circumstances, they must necessarily accompany a permanently declining population. The account given of the causes and effects of great migrations⁶ is an excellent example

¹ *Essay*, p. 8, note.

² See also Roscher, Bk. V.

³ *Essay*, p. 37.

⁴ *Essay*, p. 121.

⁵ p. 379.

⁶ pp. 45-47.

of the essay. Emigration does not necessarily diminish population.

To resume the main argument: the sum of all these preventive and positive checks taken together forms the *immediate* check to population; in every country some of them, with more or less force, are in constant operation, and yet there are few countries in which there is not a constant effort in the population (or rather part of it) to increase beyond the means of subsistence. It is this effort which tends to subject the lower classes to distress and to prevent any permanent amelioration in their condition. But the distress arises because population is repressed, not by moral restraint, but by misery and vice.

A point in the argument which has hardly received sufficient attention is the *economy* in the application of this system of checks. With Malthus the position is fundamental — and he takes great pains to establish it — that the preventive and the positive checks vary inversely to each other. In countries that are naturally unhealthy or subject to a great mortality from any cause, the preventive checks will prevail very little. On the other hand, in countries where the preventive checks are in considerable force the mortality is very small. This conclusion is suggested by the expansive power of population, but it is proved by appeal to experience.¹ It naturally leads to the principal practical result of Malthus' investigation: if only the mass of the people would exercise moral restraint, the other checks that arise from misery and vice would tend to disappear.

Nothing is more unfounded and unjust than the assertion that Malthus looked upon vice and misery as necessarily connected with the growth of population; they are so only in the absence of the other alternative always offered; but it is true that anything which weakens moral restraint tends to bring into play these evil tendencies. If the means of

¹ Malthus refers also to the recuperative powers shown after wars and plagues.

subsistence increase, the principle of population will show its force unless it is counteracted; it is for man, as a rational creature, to choose the counteracting agency; if, like animals, human beings, regardless of consequences, give full play to the procreative force, like animals, their numbers will be kept down by the misery of positive evils; if by a perversion of reason they fall into vice, the ultimate effect is again misery; it is only in moral restraint that the path of safety lies. Malthus wished not for an absolute diminution of numbers, but for a relative improvement in quality. He states most explicitly¹ that the precise reason why he maintains that more children ought not to be born than the country can support is that the greatest possible number of those that are born may be supported. He looks upon infant mortality as a private and public disaster; he regards every diminution of disease, every improvement in the condition of the people as a national benefit; and that a rich class is necessary to give employment to the poor, he repudiates with indignation.²

Recently a reaction has set in against the exaggerated views of Mill on the subject of population, and the importance of the real teaching of Malthus is in danger of being neglected. It is often assumed that because the area of our food supplies has been largely extended, the principle of population is of no immediate interest; that with the rapid increase of wealth and the fall in the price of wheat, population may expand indefinitely; and it is sometimes stated, with reference to France in particular, that the evil to be feared in the near future is rather depopulation³ than over-population; and in the rural districts of the United Kingdom the diminution in numbers is regarded as a matter of public concern.

¹ p. 472. See also p. 488, in which he speaks of the very strange supposition that the ultimate object of his work is to check population, "as if anything could be more desirable than the most rapid increase of population, unaccompanied by vice and misery."

² p. 473.

³ oliganthropeia.

Reflections of this kind, however, are beside the mark. It is futile to divide the aggregate wealth by the number of people, and still more futile to take as dividend the aggregate amount of wealth possible under some ideal scheme. What we have to consider is not possible systems of equality, but actual systems of inequality. It is true that the principle of population may be directed as an argument against the former, but it is equally true that its power as a living force is present in the latter. In the United Kingdom there are large numbers of men and women who do not, and cannot, under present conditions, earn enough to support themselves in a state of tolerable comfort; still less can they bring up children in a proper manner — morally or physically. Yet these people marry and have children, and the numbers of this class are kept down by the positive checks of vice and misery. To say that the principle of population is of no importance because on the hypothesis that if wealth were equally divided there would be enough for all, is to deal with pauperism as if it were only a hypothesis. Again, if we ascend a little higher in the scale, can any one maintain that the very early marriages of factory hands, who at the time may be earning fair wages, are likely to promote their own happiness or that of their children? Surely every one is agreed that if only they would save for a few years, directly and indirectly it would be of the greatest benefit. But this is to admit what Malthus contends for most strongly; for he insists not merely that moral restraint of this kind would check the evil of relative over-population, but that the actual waiting would tend to purify and ennoble the affections, and would also give greater freedom to that master-spring of industry, that great *vis medicatrix naturæ*, the desire of bettering our condition and the fear of making it worse.

A modern industrial nation such as England is in reality an amalgam of nations, and the lowest tribes in our great cities are economically nearly on a level with the savages

of Terra del Fuego,¹ who, by the general consent of voyagers, have been placed at the bottom of the scale of human beings. Above the lowest stratum are tribes that represent every degree of civilisation and culture. It is plainly absurd to take as an average sample of a composite nation, the highest class in intelligence and morality. So long as the lower stages exist, we must suppose that the principle of population will be restrained in the present as in the past. Accordingly, if the conclusions of Malthus were ever true, they are still true; if ever applicable, they are still applicable.

It may be thought that I am emphasising a truism, but the following sentence, from the most popular authority of the day upon the subject of pauperism, a writer who claims to be guided only by facts, shows that Malthus requires either refutation or confirmation: "I have not sufficient evidence to show whether, as a rule, early marriages and large families hang together, but there are instances of it in the stories that have been told. On the whole, neither of these causes seems to have as much effect on pauperism and poverty as is sometimes supposed."²

According to the table³ given by the same writer, we find that of 1,317,104 paupers, 315,457 are children under sixteen; and he further gives the opinion that the percentage of little children would be greater than of those over thirteen. It is clear that as regards these juvenile paupers, there must have been considerable imprudence on the part of the parents, and it must be remembered that there would be a much larger number just above this class. References to house accommodation, rates of mortality, and general sanitary conditions, show that at the present time in England, numbers of children are brought into the world with no prospect of escaping from indigence and all

¹ Malthus' *Essay*, Ch. III., p. 13.

² *Pauperism and the Endowment of Old Age*, by Charles Booth, p. 144.

³ *Ibid.*, p. 164.

its consequences.¹ The vices engendered by poverty—drunkenness, crime, and sexual immorality—may in turn be partly traced to imprudence as the root cause.

In the table referred to above, I find that the number of paupers above 65 is given at 343,962. To provide these persons with a pension of five shillings per week without encouraging improvidence, it is proposed to give every person over 65 the same pension. It would be difficult to imagine a more curious or more illusory mode of giving relief and avoiding the consequences. People who do not need it are to receive a pension so that those who do need it may appear to be on the same footing. Independence of character is supposed to be protected by making the old-age pension a matter of right, not of charity. The reader of Malthus, however, would argue that so far as the duty of supporting the parents is taken from the children and devolved on the state, so far directly and indirectly is moral restraint likely to be lessened; and so far a positive check will be substituted for a preventive one of the best kind. To relieve those who are too old for self-support—the poor in very deed—is a moral obligation, but an obligation that falls in the first place on the children. If the state must interfere on the grounds of humanity, it should take care not to weaken this prior responsibility. The subject will be further discussed in connection with the Poor Laws.²

§ 3. *The Standard of Comfort.* “In most countries, among the lower classes of people,” says Malthus, “there appears to be something like a standard of wretchedness, a point below which they will not continue to marry and propagate their species. The standard is different in different

¹ See Mr. Booth's *Labour and Life of the People*, Vol. II., Part IV., “London Children,” *e.g.*, p. 493: “These are the children's homes; the parents are compelled by poverty, or by inclination are content, to dwell in them. Their children, born and brought up under such conditions, take the colour of their surroundings, and, following nature's law, grow up to repeat the parental type.”

² See Bk. II., Ch. XII.

countries and is formed by various concurring circumstances of soil, climate, government, degree of knowledge, civilisation, etc. The principal circumstances which contribute to raise it are liberty, security of property, the diffusion of knowledge, and a taste for the conveniences and comforts of life. Those which contribute principally to lower it are despotism and ignorance. In an attempt to better the condition of the labouring classes of society our object should be to raise the standard as high as possible by cultivating a spirit of independence, a decent pride, and a taste for cleanliness and comfort. . . . The fairest chance of accomplishing this end would probably be by the establishment of a system of parochial education upon a plan similar to that proposed by Adam Smith."¹ It is, perhaps, a hopeful sign of progress that English economists have substituted for the ominous phrase "standard of wretchedness" the more grateful expression "standard of comfort"; it is certainly of good augury that England has, after a hundred years, followed one more of the counsels of Adam Smith. Education is now both compulsory and free. All that remains to be done is that it should also be made real. "I long," says a London teacher,² "to have simple practical lessons with the children on things belonging to home and a woman's work, but there is no time for it. We cannot stretch the Code." The rigidity of codes³ has in times past been the most effective check to progress of all kinds. It is curious to find the evil influence weighing down the lowest classes in a modern state and so far arresting their elevation. Instruction in the elements of the art of living decently is neglected, to make room for teaching the little dwellers in the slums English grammar, parsing, and analysis. Correct spelling is another thankless task. Phonetic spelling is advocated on high authority on its own merits,

¹ *Essay*, Bk. IV., Ch. IX., pp. 437-441.

² Booth's *Life and Labour*, Vol. II., p. 502.

³ Cf. Maine's *Ancient Law*.

apart from the economy of time and labour. Arithmetic is no doubt useful, but if the decimal system were adopted, half the labour of this department would be saved. By leaving out what is utterly useless and by adopting better methods of instruction in the necessary foundations (the three R's), time would easily be found for teaching the elements of economics (domestic and industrial — the word "political" is liable to be misunderstood) and of common-sense morality. As matters stand, the knowledge of economics is left to chance, and of morality to the church, and neither, in the case of the poor, has proved a very efficient instructor. "We have lavished enormous sums on the poor," says Malthus¹ in treating of this topic, "which we have every reason to think have constantly tended to aggravate their misery. But in their education and in the inculcation of those important political truths that most nearly concern them, which are perhaps the only means in our power of really raising their condition and of making them happier men and more peaceable subjects, we have been miserably deficient." In this sentence the only change required is to substitute for the term "political" some less misleading word, if, with the equal abuse of social and moral, such a term can be found.

The first requisite to raise the standard of comfort is to diffuse the knowledge of a higher standard; it is not enough to preach or teach dogmatic morality; we must also show in a way that can be appreciated — with concrete illustrations — that the conditions of life may be improved and happiness increased. The state and the municipality may do something, but no amount of supervision, control, and assistance can be a sufficient substitute for self-reliance and the love of independence. Our sense of freedom will not allow us to interfere directly with the worst abuses of home life; the only alternative is persuasion, and to this education is a necessary preliminary.

Education that is a reality will tend to raise the con-

¹ *Essay*, p. 438.

dition of the masses, so far as affected by the principle of population, in two ways. It will raise the standard of comfort and it will quicken the sense of responsibility. Labouring men will see that they cannot afford, any more than the members of the professional classes, the luxury of early marriages and large families; if they wish to live in decency and comfort, they must begin by making some sort of provision against emergencies. In return, if they train up their children morally, intellectually, and physically in a healthy manner, they will provide themselves with the best possible insurance against old age. The causes of poverty are no doubt many and various, and the remedies are equally numerous and diverse; but one of the most certain and prevailing causes is the production of children without adequate means of support; the best and surest remedy for this evil is to make people regard home and family life as an object that requires and deserves effort and waiting for its achievement. This is the essence of the teaching of Malthus, and there is no point in which political economy more closely harmonises with common-sense morality. "A strong conviction in a young man of the great desirability of marriage, with a strong conviction at the same time that the power of supporting a family was the only condition which would enable him really to enjoy its blessings, would be the most effectual motive imaginable to industry and sobriety before marriage, and would powerfully urge him to save that superfluity of income which single labourers necessarily possess for the accomplishment of a natural and desirable object, instead of dissipating it, as is now usually done, in idleness and vice."¹

For my own part, I cannot see how such doctrine is opposed to religion, morality, or even sentiment, though the charge is still pressed in each particular,² whilst in vigour

¹ *Essay*, p. 437.

² Take, for example, the recent work on *Political Economy*, of C. S. Devas (one of the Manuals of Catholic philosophy), in most respects a fair text-book on the subject. The teaching of Malthus is severely

and dignity it seems altogether superior to the proposal to bribe young men with state bounties to save for their old age.

To return to the more strictly economic aspects of the question: there can be no doubt from experience that there is a tendency, in the working classes especially, to increase in numbers up to the point at which their standard of comfort is imperilled. Accordingly, an increase in the means of subsistence (in the widest sense) is usually followed by an increase in numbers. In some cases, however, an improvement in real wages tends to raise this standard; but it is not probable that the effect will be permanent unless supported by improved education; something more is needed than familiarity with a plentiful supply of necessities. The further treatment of this subject must be deferred to the chapter on wages.

§ 4. *The Pressure of Population on the Means of Subsistence.* It will be observed that in the foregoing treatment of the theory of Malthus the increase of food has been regarded as a condition precedent to the growth of population.¹ Ricardo and other English economists, however, have assumed that population first increases, that in consequence there is a constant pressure on the means of subsistence, and that additional supplies are only to be obtained at an increasing cost. If this position were generally true it would imply that the positive checks of Malthus are always in operation in the simple and obvious form of insufficient food and its consequences; for pressure can only show itself by deficiency marked practically by a rise in price.

The opposite view has been forcibly stated by Thorold Rogers.² "There is not a shadow of evidence in support of the statement that inferior lands have been occupied and cultivated as population increases. The increase of condemned, and yet the writer himself lays the greatest stress on fostering family life, — as if he were giving a substitute for this teaching, whilst he is only endorsing it.

¹ Cf. Rogers' *Political Economy*, p. 73.

² *Political Economy*, p. 153.

population has not preceded but followed this occupation and cultivation. It is not the pressure of population on the means of subsistence which has led men to cultivate inferior soils, but the fact that these soils being cultivated in another way, or taken into cultivation, an increased population became possible. How could an increased population have stimulated greater labour in agriculture, when agriculture must have supplied the means on which that increased population could have existed? To make increased population the cause of improved agriculture is to commit the absurd blunder of confounding cause and effect." This statement, however, appears to err on the other extreme. Even at the present time, in Scotland and Ireland (not to go so far as India and China) we have congested areas with the worst forms of agrarian pauperism. In earlier times we find great migrations of tribes caused by the overflow of population. We must take into account also the growth of towns and cities with the consequent stimulus to agriculture. It is quite possible that, just as during the present century meat has risen greatly in price and made more expensive methods of production possible, so the price of food supplies and other necessities may rise during the next hundred years under the influence of an increasing population. But whilst the theoretical possibility is admitted the actual probability may be denied. As Malthus¹ pointed out, there have often been oscillations in the advance of population and corresponding changes in the standard of comfort; but a broad survey of the history of progressive nations gives no support to the theory that in conjunction with these oscillations there has been a general downward tendency in the condition of the mass of the people or greater difficulty in obtaining food supplies. If we consider not only the lowest forms of unskilled labour, but take a general average of the community, there can be no doubt that on the whole the necessities of life are more abundant and more certain now than in earlier stages of society.

¹ *Essay*, pp. 9-11.

In conclusion, attention may be directed to the importance of a nation's not relying for its main support on the cheapest forms of food. If the bulk of the people are accustomed to wheat and fresh meat, in times of scarcity they may draw upon inferior and cheaper forms of food, such as potatoes and rice. But if they are accustomed already to the cheapest food, and if their standard of comfort so far is based upon it, there is no reserve against a failure of supply. The potato famine in Ireland (A.D. 1846) is the classical example of the truth of the theory, and it is worth noting that it was anticipated by Malthus.¹ The celebrated traveller and agriculturalist, Arthur Young, published, in 1800, a pamphlet on *Scarcity and its Remedies*, in which the following passage occurs: "If each country labourer with three children and upwards, has his ample potato ground and a cow, the price of wheat would be of little more consequence to him than it is to their brethren in Ireland. Every one admits the system to be good, but the question is how to enforce it." The comment of Malthus is characteristic and pointed. "I was by no means aware that the excellence of the system had been so generally admitted. For myself, I strongly protest against being included in the general term of *every one*, as I should consider the adoption of this system as the most cruel and fatal blow to the happiness of the lower classes in this country that they had ever received."²

¹ *Essay*, p. 451.

² Roscher (*Political Economy*, Bk. V.) gives an excellent account of the principle of population, with many facts which supplement those collected by Malthus. The general reports of the census abound with information, but the statistics are too complex for quotation in the present work. The history of the growth of population over a long period is the best comment upon the theory. See, for example, the essay, by Mr. Price Williams, on the increase of population in England and Wales since 1700. — *Journal of the Statistical Society*, September, 1880. The work of Sir W. Hunter, on India, shows the great difficulties in the way of avoiding over-population with the abolition, by a civilised government, of the positive checks hitherto prevailing.

CHAPTER XII.

THE GROWTH OF MATERIAL CAPITAL.

§ 1. *Meaning of the Growth of (Capital Material).* As already explained,¹ the popular idea that large masses of capital are handed down from age to age without any trouble except that of investment is altogether erroneous. If it is true that all capital is saved, it is equally true that all capital is consumed, and in most cases it is consumed rapidly. Accordingly, but for popular usage, it would be preferable to speak of the growth of capital rather than of its accumulation in considering the laws of its increase. In fact, as Mill observes, the increase of capital is analogous in many respects to the increase of population.

The root idea of capital is that its characteristic utility is the satisfaction of future needs. The simplest form of the creation of capital is putting aside, directly for future consumption, a portion of a stock of consumable commodities. Even in the highest civilisation, this direct saving is practised whenever people lay in stores for future use.

To a great extent, however, the creation of capital depends upon the direction given to industry. Any one who has command over a certain amount of money has directly or indirectly the control of a corresponding part of the productive forces of the society in which he lives. He may choose to use this power for his immediate gratification, as, for example, by supporting a number of personal attend-

¹ CH. VI., § 7.

ants in the style of a feudal baron. On the other hand, he may give employment to labour in the construction of various kinds of auxiliary or sustaining capital. At the end of a given period, the labour, having been itself renewed, is still there, and unless a miscalculation has been made the capitalist has a larger command than before over industry, for his capital is not simply replaced, but replaced with an increment, which, expressed in terms of money, is called profits. This conversion also, in a sense, involves the sacrifice of a present for the sake of a future good, though in many cases the pleasure of accumulation is much stronger than that of careless extravagance.

Karl Marx and other socialists are no doubt justified, as against optimistic writers like Bastiat, in ridiculing the "abstinence" of a great capitalist, whose personal consumption is only limited by his tastes and inclinations, and whose ruling idea is increase of wealth for the sake of the general power which it confers. So much may be admitted; but take away from such a capitalist the disposal in the future — if only by his last will and testament — of the results of his abstinence, and his saving would soon be replaced by expenditure of some kind; he might gratify his notions of magnificence by display, or, if actuated by philanthropy, direct with his own hand the distribution of his wealth between competing charities. In any case, however, there must be some attraction of some kind strong enough to make the reward of the future overbalance the gratification of the moment, or saving, in the broadest sense of the term, will dwindle to the vanishing point.

Turning now from the individual to the society, economists have naturally divided the causes which affect the accumulation or growth of capital into two groups¹; those mainly which affect the amount of the fund from which savings may be made, and those which operate on

¹ "For the development of industry, the union of *power* and *will* is required." — BENTHAM, I., p. 310.

the minds of the owners of wealth and lead them to save rather than to consume.¹

§ 2. *The Power to save.* The maximum amount which can be added in a given period (say a year) to the capital already existing is the whole of the real net produce of the society. The capital and labour already existing must be continued in the same state of efficiency; labour must obtain sufficient necessaries, raw material must be replaced, and buildings and machinery must be kept in good order. So much at least must be done simply to leave the productive power of the community unimpaired. At the same time, before any addition is possible, the consumption capital also, that is to say, the more durable forms of material sources of enjoyment, must be kept up in amount and quality.

In a modern society we must necessarily, for clearness of vision, introduce money to measure the growth of wealth; and the reference to the renewal and continuance of capital is rather to the value² than to the things themselves. In this way only can allowances be made for substitution and for growth, in the variety both of the means of production and of consumable commodities. The real net produce (measured in terms of money) that remains after the expenses indicated have been met, is obviously more than is covered by the profits of capital and the rent of land; there is always a large sum in the hands of labour, which may or may not be saved; and this is especially to be noted if we use the term "labour" in its widest sense.

This annual surplus of the national budget (if the term may be so far extended) may be spent as income, or be set aside as capital. Passing over, for the present, the motives which determine the relative proportions of the distribution between these two objects, we may assume that the amount actually saved will depend partly upon the amount which can

¹ Cf. Mill, Bk. I., Ch. XI., § 1.

² Under the usual supposition of no real change in the standard.

be saved. Accordingly, at the risk of some repetition, it seems desirable to enumerate the principal causes which determine the fund, from which, if the members of a society choose, savings can be made. Speaking broadly, this fund will depend upon the amount and the efficiency of the three great agents in production — land (or nature), labour, and capital — compared with what is required for expenses of all kinds, including those of government. The elements of natural resources, and the causes that govern the efficiency of labour and capital, have already been discussed. They are of especial importance in the case of new countries. The colonists carry out with them, as Adam Smith¹ observes, a knowledge of agriculture and of other useful arts superior to what can grow up of its own accord, in the course of many centuries among savage and barbarous nations. They apply the productive methods of an old civilisation to the virgin land and unexhausted or untried natural powers. In some countries, which at one time have apparently reached a stationary state, the growth of wealth has been again stimulated by the development of foreign trade. A striking example is furnished by Holland, after the pacification with Spain in A.D. 1648. A celebrated statesman² estimated that from this year to 1669, the commerce and navigation of Holland increased by one-half; and after giving an enumeration of the inhabitants, adds, that “the eighth part of this number could not be supplied with necessaries out of the produce of Holland, it being their gain by traffic, which brings in the necessaries for the other seven-eighth parts of the whole people.” During the present century, one of the principal causes of the great increase in the wealth of the United Kingdom has been the development of foreign trade.

The extension of credit increases wealth directly and indirectly. The use of credit instruments, in place of the

¹ Bk. IV., Pt. II., Ch. VII.

² De Witt, *Interest of Holland*; quoted by Macpherson, *Annals of Commerce*, Vol. II., p. 538.

precious metals, saves labour, capital, and time, in the distribution of products; banks and insurance societies serve to collect small sums on the one hand, and on the other, to advance large loans to productive enterprise; and it is only by credit that the complex organisation of modern industry, with its intricate division of labour, is possible.

Foreign trade and credit, in their turn, are associated with improvements in the means of communication. Steam and electricity have increased to an extraordinary degree the mobility of labour and capital and the adjustment of supply to demand.

The difficulty with all these factors in national production is not to see their importance when pointed out, but to realise their magnitude relatively to small causes of disturbance. At the time of its occurrence, for example, a commercial crisis seems as if it would shake down the industrial edifice; a local strike seems capable of ruining the country at large; and a rise in a foreign tariff seems to endanger our whole foreign trade. In estimating the amount of a nation's wealth and the causes of variation in the rate of progress, the first requisite is a due sense of proportion; and the preceding outline may serve to recall the general principles, which have elsewhere been discussed in some detail.

We have next to consider the motives which induce people to prefer future to present gratification, or the causes which determine how much of the national surplus or real net produce will be added to capital.

§ 3. *The Will to save.* The will to save, like the power to save, depends upon a group of causes, and, again, the difficulty is mainly that of enumeration with just emphasis.

The most important condition appears to be *security*, which operates in many ways. The power of government is overwhelming compared with that of any individual; and one of the worst forms of insecurity is that which arises from despotic and arbitrary government. Many

of the provinces of Turkey are endowed with splendid natural resources, and the peasantry are, by nature, industrious, temperate, and thrifty. But they present numberless indications of the decline following upon misgovernment. In Syria, for example, "the population is estimated to be less than a tenth of what it once amounted to. The soil, in many places remarkably fertile, is to a large extent impaired by neglect; terraces, for cultivation on the hill-sides, have been allowed to fall into ruin; and the general neglect has injured even the climate."¹ Adam Smith observes, in explaining his second canon of taxation, that the experience of all nations shows that a very considerable degree of inequality is not nearly so great an evil as a very small degree of uncertainty.² Undoubtedly one of the great roots of England's commercial prosperity may be traced to the persistent opposition on the part of the people to the arbitrary exactions of the crown or the aristocracy. The leading principle of Magna Charta itself is security. "Clause by clause," says Stubbs, "the rights of the commons are provided for as well as the rights of the nobles, the interest of the freeholder is everywhere coupled with that of the barons and knights; the stock of the merchant and the wainage of the *villein* are preserved from undue severity of amercement, as well as the settled estate of the earldom or barony. The knight is protected against the compulsory exaction of his services, and the horse and cart of the freeman against the irregular requisition even of the sheriff. In every case in which the simple freeman is not secured by the provision that primarily affects the knight or baron, a supplementary clause is added to define and protect his right; and the whole advantage is obtained for him by the comprehensive article which closes the essential part of the charter."³ It was this same principle of security which

¹ Chisholm's *Commercial Geography*, p. 312.

² Of Bentham, Vol. I., p. 311: "When security and equality are in opposition, there should be no hesitation; equality should give way."

³ *Constitutional History*, Vol. I., p. 531.

at a later stage enabled the villeins in England to pass through a species of land-and-stock lease or *métairie* to the practical ownership of their lands.¹ Elizabeth, one of the strongest of our monarchs, was compelled to abandon monopolies by the fathers of those who in the next generation passed the Petition of Right²; the Civil War in England, and the revolt of the American colonies, were both due to straining the prerogatives of the crown.

Mill³ has said that security consists of protection *by* the government, and protection *against* the government, and that the latter is more important; and again, that the only insecurity that is altogether paralysing, is that arising from the government, or from persons invested with its authority. Security against the arbitrary exactions of despotism is no doubt a necessary condition for the development of industry. It is, however, rather negative than positive in character, and it is a mistake to suppose that the security afforded by the government is of comparatively minor importance. On the contrary, as Bentham declares, the care of security is the principal object of legislation; and without law there is "no security, consequently no abundance nor even certain subsistence." Security, he affirms, is the distinctive mark of civilisation; and it is entirely the work of the law. It is plain that security in this sense means much more than security against the government. It implies not only protection against robbery from within and invasion from without, but above everything, security for the enforcement of contracts. "If industry creates, it is the law which preserves; if, at the first moment we owe everything to labour, at the second and every succeeding moment we owe everything to the law."⁴ The industry of modern civilisation is gov-

¹ Cf. Bk. II., Ch. VII.

² "To have suffered in the recent (1628) resistance to arbitrary taxation was the sure road to a seat." — GREEN.

³ *Principles*, Bk. I., Ch. VII., p. 6.

⁴ *Principles of Civil Code*, Pt. I., Ch. VII.: "Of Security."

erned and animated by contract; it depends for its very existence upon the constant fulfilment of an infinite series of bargains; and, in the last resort, it is the possibility of appeal to the resistless power of the state that is the guarantee of fulfilment.

Apart from the general enforcement of contracts, the government may increase security by rendering certain clauses in contracts compulsory and giving to certain terms an equitable interpretation. In contracts for the hire of land, for example, it is of great importance that the tenant should be able to put upon and into the land the capital requisite for good husbandry; but to do this he must have the assurance either that he will be able to withdraw it on the termination of his lease, or else receive fair compensation. One of the greatest checks to the accumulation of agricultural capital until quite recently was the preferential legislation in favour of the land-owner. Another good example is furnished by the development of foreign trade; for a long period a foreign merchant was responsible not only for his own debts and crimes in any country, but even for those of his compatriots. The earliest commercial treaties were designed to afford to the foreign trader on reciprocal terms some part of the security enjoyed by the home trader.

Returning to the general question, it may be observed that the longer the period of expectation of fulfilment is extended, so much greater ought to be the security. Just as for the moment an inconvertible currency may serve as well as gold for the medium of exchange, so for the moment martial law or lynch law may suffice to preserve order and enforce payment for purchases. For deferred payments, however, a more stable standard, and for deferred obligations a more stable government, is required. And from the nature of the case, — from the very essence of the conception, — the accumulation of capital involves the anticipation of security in the future. It is sometimes said that, under the influence of the French Revolution,

Bentham attached too much importance to security. It would be more just to say that at present, in the midst of profound peace,—external and internal,—we are so familiar with security that we look upon it as part of a state of nature, instead of regarding it, so far as industry is concerned, as the latest product of civilisation. The subject will again demand attention in connection with the economic foundations of the system of private property.¹

Analogous to the security afforded by government and against government is that afforded by and against the powers of nature. If a country is naturally unhealthy, or if it is subject to earthquakes or other physical disasters, and life is uncertain, the value of a future good is discounted at a higher rate. The occurrence of great plagues, apart from the destruction of labour, is usually accompanied by extravagant expenditure:² “let us eat and drink, for to-morrow we die.”

Next in order to the various kinds and degrees of security we may place the group of motives which are included under the phrase, *the effective desire of accumulation*. This desire may be deficient simply owing to lack of imagination as regards the future, to a want of power to look forward. There may be no aversion to labour, and the dangers of famine, if provision is not made, may be very real, and yet, as in the famous instance quoted by Mill, of the Indians on the St. Lawrence, no work is undertaken in which the return is at all distant, and the growth of capital is effectually prevented.

The simple reason is that the vividness of the present makes the future dim and uncertain. We may descend much lower in the scale, until indeed we reach a point at

¹ See Bk. II., Ch. II., § 5.

² See the well-known description of Thucydides, Bk. II.: “. . . they justified a speedy fruition of their goods, even for their pleasure or licentiousness, as men that thought they lived their lives but by the day.”

See also De Foe's *Journal of the Plague Year*: “. . . from that hour all trade, except such as related to immediate subsistence, was, as it were, at a full stop.”

which primitive men seem lower than animals in providing for the future. "The native Australian is entirely destitute of foresight, being in this respect inferior to many animal species. In a general way not the most elementary idea of providing or preserving nourishment for a future occasion enters his head. In his hours of plenty he gorges, without care for the morrow, and when hunger—voracious hunger—is once appeased he wastes and even voluntarily destroys all that is left."¹

Sometimes the effective desire of accumulation is deficient on the moral, rather than on the intellectual, side. We find abundant instances in the most civilised nations—as in the disregard for the welfare of wife and children, and in the failure to secure independence in sickness and old age. In some cases, however, the desire of accumulation becomes a dominant or fixed idea; the end is lost sight of in the means; and to add field to field or pound to pound becomes the mainspring of life.

It is love of gain in this extreme form which has always been so severely condemned by philosophy and the Church. It is one of the best examples of the need of treating political economy as a positive science which observes and classifies facts, and not as a body of doctrines which inculcates certain maxims. From the point of view of happiness—whether of the community or of the individual—still more from the point of view of freedom, of self-culture, and of the many forms of ideal morality—the effective desire of accumulation may in some cases be described as a degraded, unreasoning superstition. It is, however, a great mistake to suppose that this extreme love of wealth is only a product of the highest industrial communities, and that in the simpler stages of society it is absent. "This commercialisation of morals," says M. Letourneau,² "is not incompatible with a savage state. It will flourish in any society, civilised or savage, when the love of any

¹ Letourneau's *Property* (translation), p. 30.

² *Ibid.*, p. 96.

sort of gain becomes the ruling motive, the mainspring of every act." Thus of an African tribe, we are told, by Sir Samuel Baker,¹ that "they would fight for their cattle, although they would allow their families to be carried off without resistance; cattle would procure another family, but if the animals were stolen there would be no remedy." Again, Burton² says of the East African: "He will refuse a mouthful of water out of his abundance to a man dying of thirst. He will not stretch out his hand to save another's goods, though worth thousands of dollars, if he is not paid to do it. But of his own property, if a ragged cloth or a lame slave be lost, his violent excitement is ridiculous to behold."

It is not necessary to dwell longer upon the pathology of the desire of accumulation; nations have been ruined by reckless extravagance, but the process of accumulation — the growth of wealth — is not necessarily or usually associated with the decay of men. The desire to rise in the social scale, and the importance attached to wealth as such, have been prominent factors in social progress.

One of the principal fallacies of the traditional English political economy³ arises from neglecting to observe that the mere possession of wealth may constitute its chief utility, and that the sense of power afforded by retaining wealth may be far greater than any pleasure afforded by consumption. Under a money economy in which any form of wealth through the agency of banks and brokers may be converted by the individual into credit documents which give him so much general purchasing power, the effective desire of accumulation depends largely upon this characteristic of saving. Moralists may deplore the fact

¹ Quoted, *ibid.*, p. 96.

² *Ibid.*, p. 97.

³ "The greatest part of the utility of wealth, beyond a very moderate quantity, is not the indulgencies it procures, but the reserved power which its possessor holds in his hands of attaining purposes generally; and this power no other kind of wealth confers so immediately or so certainly as money." — Mill's *Principles*, p. 3. But he too often omits the application.

that worth in popular estimation should in any degree be reckoned by wealth, but to deny it would be wilful illusion. In truth, however, the acquisition of wealth for its own sake is not so much opposed to common-sense morality as may at first sight appear; it is proverbially associated with health and wisdom; it calls for prudence, energy, and self-restraint; it opens up a path to the higher stages of political and social activity; and a certain amount of accumulated wealth is, in most cases, a condition of independence and personal freedom.

It follows, from the importance attached to the desire to rise in the social scale, that the growth of capital will vary with *the distribution of the national wealth* amongst different classes and with the facilities afforded for investment. If most of the land is held by an aristocracy, history proves that the love of display and magnificence generally overpowers the desire of accumulation and improvement. A well-known passage in Adam Smith¹ describes the way in which the feudal baron exchanged for a pair of diamond buckles, or something equally frivolous, the maintenance of a thousand men for a year, and with it all the corresponding weight and authority. A striking contrast is drawn with the small proprietor, who knows every part of his little territory, and who is generally, of all labourers, the most industrious, the most intelligent, and the most successful. In recent times, however, great land-owners and large farmers have caused a great increase in agricultural wealth.²

In mercantile communities the accumulation of capital is generally rapid, although it does not commonly remain for more than two or three generations in the same families. From the national standpoint this transference is of little importance.

It is obvious that, other things being equal, accumulation will vary with *facilities for investment*. Since the institu-

¹ Bk. III., Ch. IV.

² See *supra*, Ch. IX.

tion of savings banks, building societies and the like, the working classes have saved large sums; and joint-stock companies with shares of small denominations have similarly stimulated the savings of the middle classes. At present Great Britain, like Holland at an earlier period, lends large sums to foreign states (both to governments and to individuals), and but for this outlet the difficulty of finding investments must have checked accumulation considerably. As Bagehot pointed out, the rapid increase of wealth in England is partly due to the democratic nature of its capital.

The consideration of investments naturally leads to an examination of the effects of *the rate of interest*.¹ Here we have to balance opposing tendencies. If the rate is high there is so far a greater encouragement to save. But there may be a certain reaction upon labour and production. For the more wealth goes in the shape of interest to capital, there will be less left for wages in the broadest sense, and so far there will be less encouragement to work, and the amount produced will be less. To take a concrete example: if the rate of interest is high, people are so far more willing to advance money upon mortgages of land; but if the cultivators are bound to pay large sums by way of usury, their energies are liable to be crippled. The exorbitant rates charged by the Jews in Russia and other countries have no doubt caused a depression in agriculture, and the hatred of the Jews — *Juden-Hetze* — has thus a natural, economic foundation, and need not be ascribed to race prejudice. From the earliest times, in all countries, the great curse of small cultivators has been the custom of mortgages.² On the one hand, it is true savings have been stimulated, but in general the reaction on labour has been much stronger.

If the rate of interest is low, in order to secure a certain income or annuity, a larger principal sum must be saved.

¹ Compare *infra*, Bk. II., Ch. XIII.

² An admirable example is furnished by Mommsen's *Roman History*.

Thus the rates for insurance of all kinds become higher. At the same time labour obtains capital more cheaply, and consequently works at higher pressure; so that, on the whole, there may be a larger fund from which savings can be made. Again, with a low rate of interest on old investments, there is an encouragement to new undertakings.¹

Suppose, for example, that house property which formerly yielded seven per cent now only yields five per cent. The capital value of the houses will rise, if we assume that, to begin with, the rents remain the same. But a great stimulus will be given to building new houses, and the ultimate result will be that the country will possess more or better houses let at lower rents. A similar argument may be applied to machinery, factories, and all forms of fixed capital.

Further consideration of this topic may be deferred to the treatment of the rate of interest.² At present we are only concerned with the rate of interest as affecting directly and indirectly the will to save.

§ 4. *Of the Accumulation of Different Kinds of Capital.* Hitherto the question of the accumulation of capital has been discussed without reference, except for illustration, to the different species, and capital has been treated as if it were simple and homogeneous. This assumption is justifiable when we are examining only the great forces at work, but a survey of the principal kinds of capital shows that the rates and causes of accumulation are very different.

Consider, in the first place, that part which is practically sustaining capital, the elementary necessities of food, clothing, fuel; it is plain that the better the industrial organisation, so much the less need is there for accumulation of large stocks. Take, for example, the food supply of Great Britain. The greater part is produced and consumed annually, *e.g.*, cereals; in other instances the period

¹ See Giffen's *Stock Exchange Securities*, Ch. III.

² *Infra*, Bk. II., Ch. XIII.

is shorter, *e.g.*, fish; in some cases, *e.g.*, meat, more than a year is required for the full preparation of the product. Mr. Atkinson¹ has observed that the whole world is always within a year of starvation. It is only in undeveloped countries that it is desirable directly to accumulate stores of food against the emergencies of famine. There must, of course, always be sufficient for present needs and for future reproduction, but beyond this, in modern industrial societies, accumulation of food supplies is a waste of productive power.

The same argument applies to clothing and fuel; beyond a certain point a large stock is simply an indication of bad organisation.

Even as regards shelter, it is waste to build houses before they are needed; and it is not generally good economy to aim at excessive durability, that is to say, when the buildings are not of an artistic or monumental or religious character. As Roscher² points out, it is more economical to build a house that will last sixty years for £2000, than one which will last four hundred years for £4000, because the interest saved in sixty years on the former would suffice to build three such houses.

The same argument applies to other quasi-permanent forms of consumptive capital, such as works of art, furniture, and the like. Passing over the products of genius which are beyond the operation of ordinary economic laws, substitution is in most cases better economy than accumulation.

As regards the raw materials of manufacture, it is obviously waste to increase supplies beyond the requirements of a comparatively limited period. For in the concrete this would mean that traders lock up their capital in a shape which only yields a negative interest in the form of possible deterioration, and the certain expense of storing.

¹ *Distribution of Products*, p. 3.

² Bk. IV., Ch. I., § 233. See also note.

In some forms of auxiliary capital, *e.g.*, roads, railways, bridges, regard must be paid to a more distant future, but the annual charges for repairs and renewal are always large. Machinery, owing to the liability to improvements, is in general too durable, and often becomes old iron before it is worn out. Ships may be placed in the same category.

Capital sunk in the permanent improvement of land, as in the great drainage works of the fens, approaches more nearly to the popular idea of capital saved once for all, and handed down to future generations. In the words of Adam Smith:¹ "The capital that is acquired to any country by commerce and manufactures is all a very precarious and uncertain possession till some part of it has been secured and realised in the cultivation and improvement of its lands."

We are now in a position to see more clearly the force of the positions taken up in the earlier chapters as regards the nature and function of capital. Saving is a very different thing from hoarding; wealth that is saved in the economic sense is at the same time used and consumed; all that saving essentially implies is that productive power is applied and directed to the satisfaction of more or less distant needs. Accordingly, paradoxical as it may appear, in a modern industrial society, next to investment in companies, the typical form of saving, as, in earlier times, of hoarding, is saving of "money." The solution of the paradox is found in the variation in the constitution and uses of money. Before credit was developed, and when interest was considered both sinful and illegal, the only way of saving "money" was by hoarding. At this stage, money was simply coined treasure. But with the modern system of banking, saving money really means that a person hands over to the banker the control of a certain part of his share of the real national income, including services as well as commodities. The banker advances to the broker,

¹ Bk. III., Ch. IV.

the broker to the trader or manufacturer, and ultimately, the money saved is, in general, spent on some form of productive labour.

I say productive labour, because the goods consumed must be replaced with profit, in order that the system may be effectually continued.¹ Thus, saving is not so much the piling up of consumable commodities, or even the making of machinery and the building of factories, as the direction of the national energy into particular channels; and the outcome of saving is a growth in the productive power, with a corresponding increase in the consuming power of the people as a whole.

By the same path we also reach a point from which the mutual dependence of material and personal capital can be appreciated. Without the latter, the former is absolutely useless — as useless as a ship without a crew, or a city without inhabitants; and similarly, without material capital, personal capital is like a crew that is shipwrecked, or a city after an earthquake or tornado.

§ 5. *Methods of estimating the Increase of Material Capital.* Before the adoption of a money economy the only method of estimating the growth of wealth is by simple enumeration. In the case of the possessions of Job, for example, we are told that his sheep, camels, oxen, and she-asses were respectively twice as numerous after his affliction as before. When a money economy has been fully established we naturally estimate the wealth of individuals in terms of the monetary unit, and in process of time the same method is applied to the wealth of nations. Such estimates of national wealth have usually been made for purposes of taxation. The Domesday survey is a notable combination of detailed enumeration with valuation.

Later on we find inventories made of the movable

¹ The case of the anticipation of revenue by the unproductive consumer will be considered later; as also the question of over-production and excess of supply. Cf. Bk. III.

wealth of households, and a value placed upon each item so that a tenth or fifteenth might be taken by way of direct taxation.¹ Such a detailed process in modern times would be found not only odious, but impracticable, although it may be observed in the United States some attempt is made to arrive at a census of the national wealth and its value. When we are comparing distant periods, especially with the view of comparing the progress of the nation as a whole, or of various classes, it is necessary to make a survey of the principal forms of wealth, and to estimate the quantity and quality as well as the value. In the same way, if we are comparing the wealth of different nations at the present time, there is little real meaning in the estimates of wealth per head of population in terms of money.² Such estimates must, at any rate, be supplemented by taking into account the principal particular elements in the national resources, and the principal forms and quantities of produce.³ Even when in modern times we compare the wealth of the same nation at comparatively short intervals, — say ten years, — in spite of the recent improvements in the collection and the methods of statistics, the comparison is extremely rough and can only be relied on for very general purposes. Take, for example, the estimates of the decennial increase in the wealth of the United Kingdom made by Mr. Giffen, the results of which have become part of the general information of educated people. The general method of procedure is as follows: As a basis the assessments for income-tax are taken; these furnish a reliable minimum of a considerable part of the national income. The next step is to find out the corresponding capital value. For this purpose the various schedules are consulted, and the gross income is in this way split up into classes; and these various classes are capitalised at a suit-

¹ See Dowell's *History of Taxation*, Vol. I., Appendix II., for very curious examples.

² As, for example, in Mulhall's *Dictionary of Statistics*.

³ As given in works on commercial geography.

able number of years' purchase, according to the estimated permanence of the source. The method, it will be observed, is justified by the root conception of capital, which is based on future capacity of satisfaction. Thus land¹ is taken at twenty-six years' purchase, houses at fifteen, and quarries and mines at four years', respectively. Certain deductions, however, fail to be made. Thus, of the income of trades and professions, it is assumed that only one-fifth is derived from capital (material), the rest being a higher form of wages. Care, too, must be taken that debts of various kinds are not counted as assets, *e.g.*, consols, debentures of companies and the like. When these and other allowances have been made, we are left with an estimate of that part of the nation's capital which yields income liable to income-tax. So far the estimate — if the numbers of years' purchase are accepted — is comparatively reliable. When, however, we turn to the items of income, especially ordinary wages, which are not assessed for taxation, the basis is much less solid, and it is also more difficult to know how much should be ascribed to the possession of (material) capital, such as trade, tools, etc. Mr. Giffen himself takes only one-tenth of the income, and capitalises at only five years' purchase. Corresponding uncertainty is found in estimating the capital (now generally called consumption capital) which does not yield income at all, such as the furniture, or more generally, the movables, in houses. This item is reckoned at half the value of the houses, but no reason is assigned. There are also various forms of public and municipal property, of which it is difficult to get a money value, *e.g.*, light-houses, roads, breakwaters, dock-yards, etc.

Apart from other difficulties, there is always the fundamental difficulty of a possible change in the standard of value. There can be little doubt that during the last twenty years there has been a considerable appreciation of gold, in other words, its purchasing power has risen, or

¹ I take the valuation of 1885. *Growth of Capital*, p. 11.

conversely, a certain aggregate money estimate represents a greater quantity of real wealth.¹

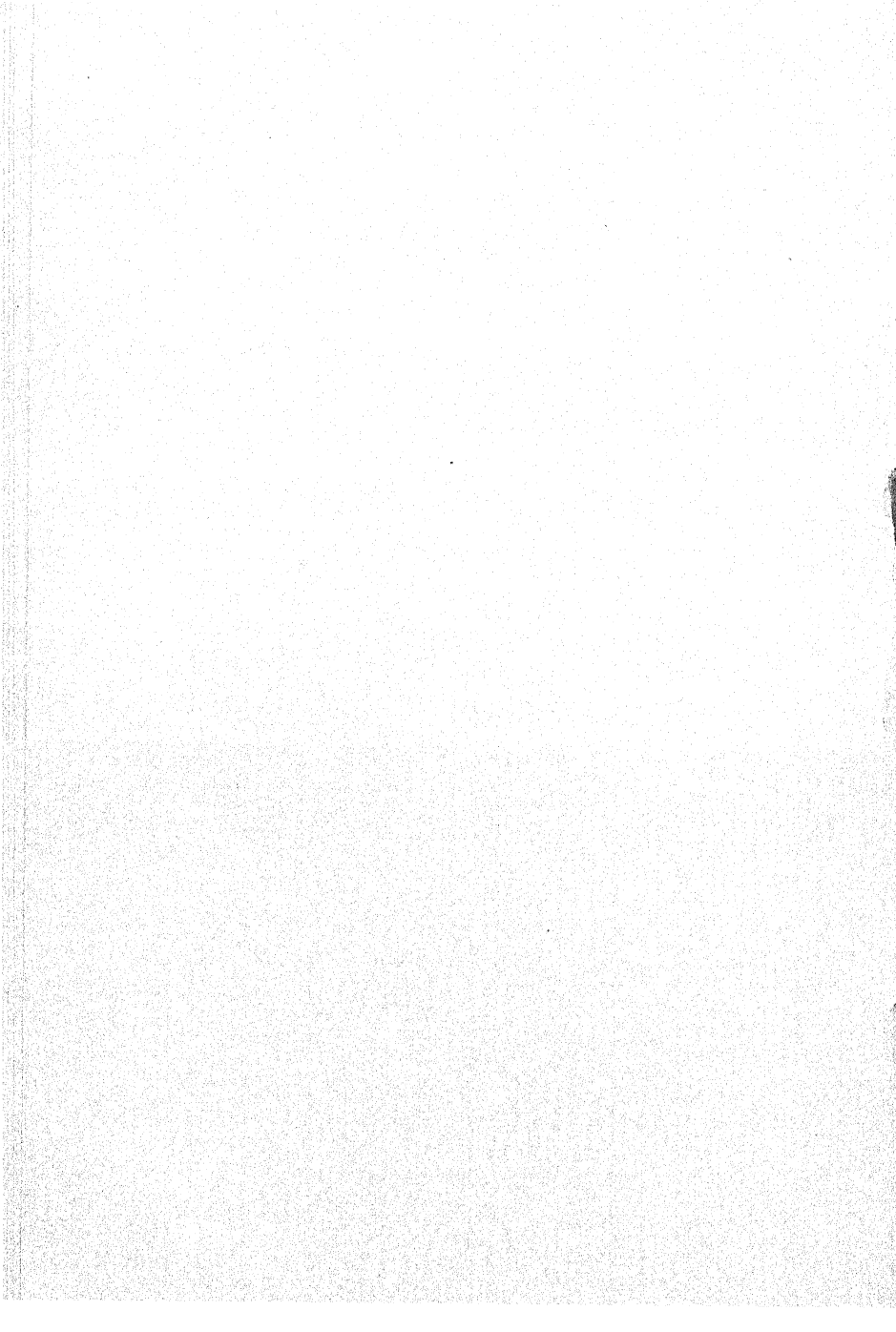
At the same time, however, in spite of the lack of precision, and the conjectural character of some of the figures, calculations such as those made by Mr. Giffen are of considerable value, especially for theoretical purposes, or rather, in connection with certain very general economic problems. They bring before the mind the great bones of the national economic system, and perform the same office for the economist as large maps for the politician. It must be observed also, that if the same methods are used in obtaining and calculating the figures, although the absolute amounts may be inaccurate, the comparative results may be much more reliable, just as if you weigh children by the same false weights, and measure them by the same false measures, although the absolute results are erroneous, you may tell how they are thriving after an interval.²

¹ *Essays in Finance*, Vol. I. *Recent Accumulations of Capital*, p. 169.

² Mr. Giffen, in his interesting work on the *Growth of Capital*, gives many calculations of previous observers, and points out very carefully many sources of error. In the limits of the present work, however, the statistical question does not admit of full examination. I have attempted to apply precisely the same methods of calculation as those adopted by Mr. Giffen to the personal or living capital of the United Kingdom, with the general result that it is more than five times the value of the material or dead capital. See *Economic Journal*, Vol. I., Pt. I.

BOOK II.

DISTRIBUTION.



CHAPTER I.

THE DISTRIBUTION OF WEALTH.

§ 1. *Meaning of Distribution.* In treating of the production of wealth—material and immaterial—nothing has been said except incidentally of the conditions and laws according to which it is divided amongst the various members or classes of the community for consumption or enjoyment. This is the problem of the second great department of political economy: namely, distribution. As in production, most stress is laid on the characteristic that wealth is the result of labour, so in distribution the leading idea is that it is capable of appropriation. In popular discourse the term distribution is often used with reference to the mere transference of commodities from place to place, or from person to person, and in this sense we speak of the distribution of wealth by means of ships, roads, railways, and the like, and also of its distribution by wholesale and retail traders, and by co-operative societies. But, as already explained, distribution of this sort is really a part of production; for the act of production is not complete until the commodity is in the hands of the consumer.

Distribution, as distinguished from production, refers to the apportionment for use or abuse of the productive powers, and of their fruits amongst the inhabitants of a country or industrial area, and to the causes and consequences of the methods of apportionment adopted. That distribution in this sense may affect not only the kind but the amount of production has been shown in the previous book; with regard, for example, to the efficiency of labour,

the accumulation of capital, and the return to land; and in the sequel the interdependence will prove to be much closer than has yet appeared. At the same time, the logical distinction between the two departments is perfectly clear, as may be shown by a simple example. Take the case of agricultural produce. It is obvious that the same annual amount (or its money value) may be distributed in different proportions amongst wages, profits, and rents at different times; such changes are not the result of chance, and their causes ought to be capable of discovery. Similarly, at any particular time the relative proportions of the three great classes of income are determined by certain conditions of a general character, and within each of these classes there are species with differences which admit of an approximate solution. To adopt an illustration of Adam Smith,¹ the individuals of a great nation are like the joint-tenants of a great estate; the causes which govern the total yield can be considered apart from the allotment of the shares; the former correspond to the laws of production, the latter to those of distribution.

§ 2. *On Mill's Distinction between the Laws of Production and those of Distribution.* The laws of production, Mill affirms, partake of the character of physical laws, there is nothing optional or arbitrary in them; they depend upon the ultimate properties either of matter or mind. With the distribution of wealth, on the other hand, it is not so; that is a matter of human institution only; the things once there, mankind, collectively or individually, can do with them as they like. The antithesis so strongly marked, and the line of demarcation so sharply defined in these sentences, Mill himself considered of such fundamental importance, that he states in his autobiography that the emphasis which he laid upon the distinction is his principal and most original contribution to political economy. As such it deserves careful examination.

To resume: man cannot, by taking thought, increase the

¹ Bk. V., Ch. II., p. 347.

powers of natural agents, any more than he can add to his own stature; he cannot, by mere force of will, make inventions or discover new processes; without desire or necessity he may indeed do nothing, but with the best of intentions and the utmost need, the limits of production can only be stretched a little way. With the progress of society the power of man over nature may increase indefinitely, but at any particular time he can only work according to his means, his circumstances, and his knowledge.

At first sight, however, the distribution of wealth seems to partake of the character of laws of the statute-book or even of the capricious acts of an arbitrary power. In the most highly civilised society we observe that a large number of persons perform economic services which are indispensable to the preservation of the lives of all the members, and in return receive but little more than necessary wages, whilst a small number of others, without any work on their own part, receive per head a thousand, or, it may be, ten thousand, times as much of the annual produce of the land and labour. In lower degrees of civilisation, the real inequalities in the distribution of wealth are still more startling, for there we often find a small number the owners, not only of the mass of the material wealth, but of the mass of the people themselves. One of the earliest and one of the most enduring forms of property is slavery.

Mill's position, then, that the distribution of wealth depends on the laws and customs of society, which again are as variable and mutable as the opinions and feelings of mankind, may appear to be the result of an inductive inquiry. And the corresponding deduction also may seem to have a substantial foundation; namely, that the rules of distribution might be still more different than they have been, if mankind so chose, or in the concrete, that whatever the merits or defects of socialistic schemes, they cannot be truly said to be impracticable.

There can be little doubt, however, that, consciously or unconsciously, this view of the optional or arbitrary char-

acter of the laws of distribution was deduced from a celebrated political theory which has recently been subjected to severe criticism—I mean the theory of political sovereignty.¹

§ 3. *The Theory of Sovereignty.* The essence of the theory is, that in every independent political society, a centre of sovereignty is discoverable which in that state has irresistible power; the forms of sovereignty may range from absolute despotism to unqualified democracy, or may be the resultant of a complicated balance of opposing forces; but it is maintained that, from the very nature of the independent body politic, there must be one centre of sovereignty, as in the body material, one centre of mass. The theory is best understood when it is taken, as by Austin,² in a purely abstract form. If it were objected as regards any actual concrete case that there was no such sovereign power, Austin would reply, either that the people concerned did not constitute a political society at all,—that they were in a state of nature (savagedom) or a state of anarchy,—or that the society was not independent. In fact, the conceptions of sovereignty and independent political society are really inseparable; the one implies the other. The meaning of political union is habitual obedience to a sovereign power, and the essence of the sovereign power (apart from external force—in which case it is not independent), is to command, and to permit is the same thing as to command. The word sovereignty, from old association, is apt to suggest tyranny or absolute monarchy—so that it may be well to repeat that this is only one species; the sovereign may, according to the number of persons concerned, be an oligarchy, an aristocracy, or a democracy.³

¹ The phraseology adopted by Mill in introducing the argument confirms this view. Cf. Bk. II., Ch. I., § 1.

² *Jurisprudence*, Lecture VI.

³ The doctrine of sovereignty is treated with somewhat wearisome reiteration in Austin's *Jurisprudence*. The best account, for the purposes of the present argument, is to be found in Sir H. Maine's *Early History*

Now it may be admitted that in the explication of various conceptions of analytical jurisprudence — *e.g.*, law, right, duty, sanction — this irresistible sovereign power is of primary importance. But, as Maine has shown, to take it as a guiding hypothesis in considering the actual history of all societies and the development of their positive laws and permitted customs is certain to lead to barren or erroneous results. Sovereignty is, in truth, nothing more than an abstraction, and the practical value of all sciences founded on abstractions depends on the relative importance of the elements rejected and the elements retained in the process of abstraction.¹

§ 4. *Application of Sovereignty to the Distribution of Wealth.* Let us consider, then, the elements which must be rejected in order to arrive at Mill's position, that the ruling portion or sovereign power of any state can lay down what rules it chooses for the distribution of wealth. For the sake of clearness we may take the particular case of England at the present day, with the further assumption that the sovereign power is vested entirely, as it is practically, in the House of Commons. Let it be supposed that, under a wave of speculative enthusiasm, all the members elected are pledged to introduce totally new rules of distribution, to be enforced by the sovereign power. The new rules — being opposed to those at present in force — may be expected to be of the nature of those described by Mill in the following passage: "If individual property were excluded, the plan which must be adopted would be to hold the land and all its instruments of production as the joint property of the community, and to carry on the operations of industry on the common account. The direction of the labour of the community would devolve

of *Institutions*, Lectures XII., XIII. On the historical development, see Sir F. Pollock's *Science of Politics*; and for recent criticism, Professor Sidgwick's *Elements of Politics*. In the text I have only considered the question with a view to its economic bearings.

¹ *Early History of Institutions*, p. 361.

upon a magistrate or magistrates whom we may suppose elected by the suffrages of the community, and whom we must assume to be voluntarily obeyed by them. The division of the produce would in like manner be a public act. The principle might either be that of complete equality or of apportionment to the necessities or deserts of individuals in whatever manner might be conformable to the ideas of justice or policy prevailing in the community."

Now it may be objected at once that the assumption of voluntary or habitual obedience, which is essential to the application of the theory of sovereignty, is in reality neutralised by the further assumption that the mode of distribution would be in accordance with the prevalent ideas of justice or policy. In order to give real effect to the arbitrary power of sovereignty, we must abstract all those ideas which, as a matter of fact, are the results of ages of growth under a complexity of all kinds of influences. A nation, however, cannot thus throw off all its practical and traditional rules in favour of any speculative theories. It is one thing to approve of an abstract resolution, and quite another to put it into practice.

As regards obedience, Mill¹ himself may again be quoted: "To suppose that one or a few human beings, howsoever selected, could, by whatever machinery of subordinate agency, be qualified to adapt each person's work to his capacity and proportion each person's remuneration to his merits — to be in fact the dispensers of distributive justice to every member of a community; or that any use which they could make of this power would give general satisfaction, or would be submitted to without the aid of force — is a supposition almost too chimerical to be reasoned against. A fixed rule like that of equality might be acquiesced in, and so might chance or an external necessity; but that a handful of human beings should weigh everybody in the balance and give more to one and less to another at their sole pleasure and judgment, would not be

¹ Bk. II., Ch. I., § 4.

borne, unless from persons believed to be more than men, and backed by supernatural terrors."

That is to say, the habitual obedience necessary to sovereignty will not be forthcoming unless the commands issued are in accordance with prevalent common sense morality. I do not question that such morality may vary from age to age and from people to people,¹ but it cannot at the same time be subject to and dominant over the sovereign power. It is vain to say that the ruling portion of a community can command or permit any kind or degree of distribution if, at the same time, it is allowed that the distribution actually prescribed or allowed is the result of long growth and can only be gradually altered within narrow limits. It is true that the sovereign power in a modern state will enforce the fulfilment of contracts and the payment of taxes, and punish with penalties up to death the violation of certain commands; and as against the arbitrary caprice of individuals the state is supreme. But it is contrary to all experience — both past and present — to suppose that a community, by a resolution of any deliberative assembly, can suddenly change its whole economic structure. The supposition is as absurd and unfounded as the old idea of a social contract.

It is remarkable, although I believe the fact has escaped attention, that this doctrine of the perfect mobility of distribution, as it may be called, is in reality exactly opposed to the most fundamental position of the traditional English political economy. From Adam Smith downwards it has been assumed that the interference of the state beyond certain limits is not merely mischievous, but useless. The principle of *laissez-faire* rests quite as much on the weakness of the state as on the strength of individual enterprise. In the words of Adam Smith,² "the sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delu-

¹ See next section.

² Bk. IV., Ch. IX.

sions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient."

"Few will dispute," says Mill,¹ after a general examination of *laissez-faire*, "the more than sufficiency of these reasons, to throw in every instance the burthen of making out a strong case, not on those who resist, but on those who recommend, government interference."

It is surely inconsistent for the same writer at one time to argue that owing to the irresistible power of the state no socialistic scheme can be pronounced impracticable, — although the essence of all such schemes is the extreme of interference, — and at another to maintain that non-interference should be the general practice on account of the incapacity of governments.²

§ 5. *Historical Examples of Variations in Distribution.*
It is probable that this doctrine of the omnipotence of the state in matters of distribution would not have been so readily accepted had it not been, as already indicated, that it appears, on a hasty survey, to find abundant illustrations in the past. The methods of distribution which at various times have prevailed in England, offer many points of contrast with our present industrial systems. Slavery and serfdom have given place to free labour; customary land-tenures of various kinds have given way to contract and commercial principles; the powers of guilds and corporations have been in part annulled and in part transferred to voluntary associations of employers and of employed; interest on loans, which for centuries was condemned by public opinion, the church, and the law, is now associated with the highest respectability and is looked upon as essential to the stability of society. In many other cases crimes have become virtues and virtues crimes; compare, for example, the encouragements now given to emigration with the severe penalties formerly inflicted on the emigrant and his abettor, and the whippings, brandings, and severe labour inflicted on the poor at the end of the sixteenth

¹ Bk. V., Ch. XI.

² See also Sidgwick's *Principles*, Bk. III., Ch. II.

century with the reckless indulgence in their treatment at the end of the eighteenth.¹

If we take a wider survey that shall include the civilisations and barbarisms of the ancient world, the variations in the rules for the distribution of wealth become still more perplexing; on the one hand, we discover customs (*e.g.*, those of the caste system) that seem as strong as physical laws, and as irrational as exploded superstitions; and, on the other, we observe prototypes of co-operation and community of goods which superficially, at least, suggest the golden age of simple justice. The results of the historical method seem to be confirmed by a comparison with various existing societies, and the actual distribution of wealth in different nations furnishes endless examples of the permanence, the development, and the decay of the older types.²

Even in nations of equal degrees of civilisation, there appear to be remarkable differences in the distribution, as contrasted with the production, of wealth. Mechanical inventions and new chemical processes are adopted as rapidly as possible, without regard to the nationality of their origin; but foreign methods of public finance and foreign legislation for land or labour are regarded with suspicion. Compare, for example, the general imitation of English railways with the general aversion to English free trade, and the compulsory division of land amongst the children in France with the law and custom of primogeniture in this country. Seeing, then, that different societies have acted upon very different rules in the distribution of wealth, it may seem natural to suppose that the ruling portion of any society can adopt what rules it chooses, and the conception of an arbitrary sovereign power may appear to be the only sufficient cause for the endless varieties of distribution.

¹ Compare Nicholls' *History of the English Poor Laws*, Vol. I., pp. 186-187, and Vol. II., pp. 119-120.

² Cf. Letourneau, *Property, its Origin and Development*.

But as in so many other sciences, so in economics, the appeal to nature generally ends in barren verbalism or positive error. Certainly, economic history gives no countenance to the theory that the distribution of wealth in the past has been due to the caprices of sovereignty; and simply to assert that the customs actually governing distribution have been permitted by the sovereign power, gives us no clue to their origin or strength. In fact, in economic as in other theory, simply to look for illustrations of what we consider natural, is to shut our eyes to the actual processes of development or decay.

Similarly as regards the future, the conception of a sovereign people, "once the things are there," distributing them as it chooses, is either useless or mischievous. It is useless, if it only means that the whole is stronger than the part; it is mischievous, if it leads enthusiasts to imagine that they have only to make their utopias sufficiently attractive, and their establishment is simply a matter of a general election. For the purposes of practical reforms, it would be much better to assume, with the older writers, that the state is capable of nothing, rather than that it is capable of everything; for in the former case, the spur is given to voluntary effort, whilst in the latter, we fall down before the idol of a good despotism. And what is true of practical reforms is equally true of scientific investigation. The assumption that the laws of the distribution of wealth are to be deduced from the conception of political sovereignty, can only lead to the neglect of the forces actually at work in the past or present. The great variations in the methods of distribution do not imply that no laws are discoverable, but only that the discovery may be a matter of difficulty. At a time, however, when the apparent vagaries of dialects and of superstitions have been brought under the domain of science, it does not seem unreasonable to hope that the vagaries of the distribution of wealth may also be resolved into uniformities; and, as a matter of fact, during recent years great progress has been made

in this direction by the application of the historical and comparative methods.

Before proceeding to state the plan to be pursued in the present work with regard to the laws of distribution, I may notice an application of the term which has received considerable support.

§ 6. *Distribution and Exchange.* In the two most important works in political economy by English writers¹ since Mill, the distinction between distribution and exchange has been abandoned. Certain assumptions have been tacitly or avowedly made regarding private property and freedom of contract, and the various species of income have then been regarded as essentially cases of value or price; thus wages, profits, and rent are reduced, if we take a broad view of this method, to the prices paid for the use of labour, capital, and land, respectively. It is no doubt true, and subsequently the fact will call for considerable attention, that in modern industrial societies the distribution of wealth—and especially of its annual produce—depends largely upon the reciprocal exchange of the services of the three great productive agents. But even if the dependence of distribution on exchange were closer than it is, there is no reason why a logical separation should not be made. For it is equally true to say that in modern industry exchange is absolutely essential to production, and yet in this case the separation of the two departments is admitted. It seems desirable for several reasons to follow Mill's example, and to treat of the general questions of distribution apart from and antecedently to the particular method resting upon exchange. In the *first place* exchange can only be ranked as the principal factor in distribution in modern times and in the most advanced nations; and if we are to consider this agency alone, there will be little scope for the application

¹ Professor Sidgwick, in his *Principles*, entitles Bk. II. *Distribution and Exchange*; Professor Marshall calls his Bk. VI. *Value, or Distribution and Exchange*.

of the historical and comparative methods which in other departments of knowledge have been most fruitful. To narrow the field of economic inquiry in this way is to make it mainly an analysis of modern practices and a collection of empirical rules; any further generality can only be attained by hypotheses. But, *secondly*, exchange even at the present time is considerably modified by other principles of distribution. The initial advantages of position, not only of individuals but of classes, depend to a great extent upon the laws and customs governing inheritance and bequest, and it would be absurd to speak of an exchange of services between the dead and the living. Again, logically the institution of private property must be regarded as a condition precedent to exchange, but what is and is not implied in this institution is too large a problem to be passed over with an assumption, and the distribution of private property must vary according to the content of the conception. "It is not difficult," as Maine¹ observes of a part of this problem, "to point out the extreme difference of the conclusions forced on us by the historical treatment of the subject from those to which we are conducted when, without help from history, we merely strive to analyse our *prima facie* impressions."

It is common learning now that the movement of progressive societies has hitherto been a movement from status to contract²; but little more than a beginning has been made in the discovery of the actual stages of the process. One of the most interesting of modern speculations is whether this movement has reached its limit and is even to be reversed. It can hardly be maintained that the appeal to history is irrelevant; on the contrary, it may be urged that we can only make a forecast of the future by looking back to the past. Some part of these problems, of which an indication has just been given, may no doubt be advantageously transferred to the department of the

¹ *Ancient Law*, p. 174.

² *Ibid.*, p. 170.

influence of government¹ or the art of political economy,² but the fundamental principles involved ought to receive, as they do in Mill's arrangement, an earlier exposition. The importance and meaning of exchange as the basis of distribution can only be appreciated when presented against the background of a past in which other principles prevailed; and if this method of distribution can be shown to be a survival of the fittest, which has been perforce thrust upon so-called sovereign powers, it will obviously, both for critical and constructive purposes, be of much greater value than if it is regarded merely as a hypothesis adopted to explain the present state of society.

§ 7. *Ideal Economic Distribution.* It will of course be readily allowed by those who do not accept the theory of sovereignty, that governments may exercise great control in many cases over the distribution of wealth. The methods and results of such interference will, following Mill's example, be discussed later, but a preliminary inquiry may be touched upon at the present stage. The question is this: Seeing that governments have, in their control of distribution, proceeded at different times and places on very different principles, and seeing that philosophers and reformers still set up many different ideals at which governments should aim, has any one of these methods a claim to be called peculiarly economic, and if so, on what grounds? Or, more briefly, what scheme of distribution is economically the best?

If the view of the relation of political economy to ethics, taken up in the introduction to this work, be adopted, — and it may claim to be the traditional English view, — only one answer to this question seems possible, and that is, the answer implicitly given by Adam Smith. The leading idea in his work is always this — what are the causes which make nations wealthy? The attention is not distracted by discussions on the morality, according to any assumed standard of making nations wealthy, or the right-

¹ Cf. Mill, Bk. V.

² Sidgwick, Bk. III.

ness or goodness of dividing the wealth in certain proportions according to this ideal. Adam Smith, it is true, like other writers on social topics, intersperses moral reflections, — but they are essentially *obiter dicta*, and might be omitted without affecting the main argument. He indeed assumes that the system of natural liberty in industrial affairs is in harmony with the dictates of morality and religion, but he seldom appeals to, and never relies on, the assumption. Professor Sidgwick¹ justly says of Adam Smith and his earlier successors, that so far as they treated political economy as an art, they conceived its end to be that the national production of wealth should be as great as possible, and hardly appear to have entertained the notion of aiming at the best possible distribution. But his criticism is not so just, which declares that this limitation is not in accordance with the ordinary use of the wider term, economy, because that includes also the economic *expenditure* of wealth, of which the aim is to make a given amount of wealth *as useful as possible*. Adam Smith constantly refers to economic *expenditure* as a principal factor in the wealth of nations; witness his treatment of the balance of the annual produce and consumption,² and the whole argument of his fifth book, in which he considers the most economic methods of justice, education, defence, and other functions of government. And this, I take it, is the ordinary meaning of “economy” as regards expenditure, and the notion of maximum utility is altogether different. To spend a given sum of money, so as to produce the greatest happiness to the spender, cannot properly be called economic expenditure; this refers to value received for value given, and not to the happiness which may follow on the completion of the bargain. Still less can we advance from the individual to the community, and say that “the aim of *economic* distribution is to apportion the produce among the members of the community, so that the greatest amount of utility

¹ Bk. III., Ch. V.

² Bk. IV., Ch. IV.

or satisfaction may be derived from it.”¹ For, in this way, under the cover of the interpretation of a word, we beg the question as to the ideal scheme of distribution. It may, perhaps, be thought that the difference is rather verbal than material, and that practically the greatest happiness of the greatest number will be admitted by every one as the economic ideal. But a ready example shows that it is not so. Maximum freedom is at least as attractive, and may lay claim to at least equal authority. For my own part, I should not care to regard equality of distribution, even if it could be shown to be both practicable and also productive of maximum happiness, as the ultimate goal of human progress. Human energies, activities, and ambitions are not to be satisfied with a dead level of placid content. The sadness of wisdom may be preferable to the mirth of folly, and the penury of independence to the repletion of servitude. Even on the verbal question, I submit that the distribution which admits of the greatest liberty may be more properly described as economic than that which aims at greatest utility. In popular discourse, the laws of political economy are still laws of competition and freedom, and not laws of happiness and content; and even utilitarian economists still give the first place and lay the most stress on those laws which are arrived at under the assumption of a system of national liberty.²

But, as already explained, I do not consider the comparison of conflicting ethical ideals, and still less, the arbitrary choice of one in particular, to come within the province of political economy. In my view it is a positive science, and as regards the distribution of wealth, we must try to discover the real causes which have been and still are, at work, and deduce the consequences. We have to explain the nature and effects of the institution of private property, and describe and account for various species of income. Rents, wages, and profits are as definite facts as

¹ Sidgwick's *Principles*, Bk. III., Ch. I.

² Cf. Sidgwick's *Principles*, Introduction, Ch. III.

any treated of in the physical sciences. Just as land, labour, and capital are the great agents of production, so the owners of them are the dividers of the produce. Our present problem is to give an account of the positive methods of division. In accordance with recent practice, however, some attention will also be given, at a later stage,¹ to certain proposed schemes which are more or less socialistic in character, partly because opinion is itself an economic force, and partly because the consideration of the opposite shows the real meaning of existing institutions, and is the best antidote to familiarity.

I propose, in the first place, to consider the economic principles at the root of the institution of private property, and to point out, briefly, how they have gradually become of more and more importance relatively to other principles.

¹ *Infra*, Ch. XV.

CHAPTER II.

THE INSTITUTION OF PRIVATE PROPERTY.

§ 1. *The Economic, as distinguished from the Legal and Ethical, Characteristics of Private Property.* In concluding his chapter on the institution of property, Mill observes that it is a subject of which, for the purposes of political economy, it is indispensable to treat, but in which we cannot usefully confine ourselves to economical considerations. In accordance, however, with the plan adopted throughout the present work, the economic will be carefully kept apart from other aspects of the question. In justification of this procedure, attention may be called, in general terms, to some of the modes in which property may be considered, which, on this view, are beyond the domain of political economy. We shall better understand what is to be included when we have decided what is to be excluded.

First of all, then, property may be regarded from the purely legal standpoint, as one of the subjects of positive law. A little reflection will show that for adequate treatment, in this respect, a certain amount of specialisation is necessary. We may, for example, describe the nature and the kinds of property (*e.g.*, real and personal), and the different regulations affecting it, according to the law of England at the present time. Such is the mode of treatment adopted in legal text-books intended for the practical purposes of education or reference. A glance at any standard law-book of this kind will show at once that the economist cannot treat of property in this way. We may go further, and trace the historical growth of this law, a

study in itself of the greatest interest, and throwing light indirectly upon the social and economic condition of the people at various times. Any one, however, who has ever attempted to trace, for example, the actual history of our land laws, or even that of some small portion, will have no hesitation in saying that legal and economic history are logically quite distinct; what is of great importance in one department is often irrelevant to the other. Finally, still keeping within the domain of positive law, we may compare the different laws of different nations at various times, and by a combination of the historical and comparative methods attempt to discover the origin and trace the development of the institution of private property in general.¹ An inquiry of this kind will no doubt assist in the discovery of the origins of economic history, but it is one thing to elucidate legal conceptions and practices, and another to show their connection with the economic condition of mankind at certain stages of progress.

The transition in the general treatment of property from the legal to the ethical point of view is easy and natural. The reason of man is not content with observing and classifying the various forms of positive law. The very observation of the differences that have occurred in the past, and the reforms which are still taking place, leads to the question: What are the principles on which the positive law, as regards this institution of private property, *ought* to be based? On this problem, from the dawn of speculative thought, great labour has been bestowed by a succession of philosophers. The only result, however, appears to be that the contrast between conflicting ideals has been more sharply defined. There are some who will say, with Beccaria,² "the right of property is a terrible right and

¹ For illustration of the work done recently in this direction, the general reader may compare the chapter in Blackstone's *Commentaries* (Bk. II., Ch. I.), on the origin of property, with the corresponding chapter in Maine's *Ancient Law* (Ch. VIII.).

² Author of the famous treatise on *Crimes and Punishments* (*Dei Delitti e delle Pene*).

may not perhaps be necessary"; and others, who will wonder, with Bentham, that "so judicious a writer should have inserted in a work, dictated by the soundest philosophy, a doubt subversive of the social order." There can be little doubt, in spite of the present ascendancy of utilitarianism, that men will continue to dispute as to what ought to be the basis of various positive laws, and their opinions as to what ought to be will, through their representatives, determine to some extent, at any rate, what will be. At the same time, the distinction is not only clear, but of the greatest importance. The truth has been admirably stated by Sir Frederick Pollock: "The analytical branch of political science, including the pure science of positive laws, is altogether independent of ethical theories, and that is the definite scientific result which we, in England, say that the work of the past century has given us."¹

If, however, it is granted that the pure science of positive laws is altogether independent of ethical theories, *a fortiori* political economy is also independent, and *inter alia*, the particular question of property can be treated from the economic point of view without any reference to ethics. Instead of attempting, then, to determine what the laws affecting property *ought* to be in conformity with the principles of reason or goodness or happiness or religion, I shall take as fundamental, the organisation of society for productive purposes, and I shall consider property as one of the conditions affecting production. I do not maintain simply that the positive law *ought* always to regulate property so as to secure the maximum production at the minimum cost. In my view there is, and need be, no question of *ought* in the matter, — *Quot homines tot sententiae*. Adam Smith himself asserts that defence is of more importance than opulence, and other economists have for *practical* purposes constantly appealed to other principles. The factory legislation was carried mainly on moral grounds, though it

¹ *History of Politics*, p. 113.

may be supported, also, on the merely economic ground of increased efficiency. Similarly, we may defend poor relief as a moral obligation of the nature of charity, or as an economic expedient of the nature of insurance.

It cannot be denied that there must always be a close connection between production and distribution. To take a very definite case, many a country has had its productive power altogether crippled by excessive taxation. Again, the conditions under which land is held operate on the methods of cultivation. The open-field system, which seems to have been prevalent in some shape in almost every society, involved a peculiar method of production intertwined with a peculiar method of distribution. It was the break-up of the latter which caused, or permitted, the break-up of the former.¹ And in English industry at the present time production and distribution are similarly intertwined, although now the connecting links are an infinite series of little contractual bonds instead of a few broad laws and customs.

From this point of view we do not first take for granted that "the things are there," and then consider what ought to be done with them, but we ask how the things come to be there and how they are still to be forthcoming. The survey may appear narrow and restricted, but, such as it is, it has the merit of being clear and distinct. We may now proceed, after this negative limitation of boundaries, to discuss from the positive standpoint the economic bases of private property.

§ 2. *The Economic Bases of Private Property—and First, of (a) Labour.* "The foundation of the whole institution of property," says Mill, "is the right of producers to what they themselves have produced." More briefly, this may be described as (a) the *labour* basis of property. For the reasons given in the preceding section the ethical foundations and the legal consequences of the right may be passed

¹ Compare the general argument in Seeborn's *English Village Community*.

over. The vital consideration for the economist is that, in the words of Hobbes,¹ "plenty dependeth (next to God's favour) on the labour and industry of man," and that this labour and industry will not be forthcoming at all, or only in a modified degree, if the fruits are not given to those who undergo the toil. As already explained in connection with variations in the efficiency of labour,² "that efficiency may be expected to be great in proportion as the fruits of industry are insured to the person exerting it; and all social arrangements are conducive to useful exertion according as they provide that the reward of every one for his labour shall be proportioned as much as possible to the benefit which it produces."³ It is no doubt perfectly true to say that there never has been any society in which this ideal has been fully realised, but this only shows that the principle has been obstructed or counteracted by opposing tendencies of various kinds; and we have abundant proof in history, by what logicians call the method of concomitant variations, that the nearer the approximation, so much greater has been the efficiency of industry. An excellent example is afforded by Adam Smith's⁴ account of the progress in agriculture after the fall of the Roman Empire. In proportion as the cultivators of the soil obtained a fair share in the produce, so much greater was the amount produced. Slaves, coloni, métayers, tenant-farmers, cultivating owners, represent in an ascending scale the work done in proportion to the reward secured. Fear and punishment, public spirit and religion, custom and habit, — all these motives to industry are subordinate to self-interest. And it must be observed that self-interest is always at work beneath the surface, even if its action is concealed by other dominant social forces. This point will receive further attention in a subsequent chapter. In the meantime the essence of the principle involved may be illustrated by taking an extreme

¹ *Leviathan*, Ch. XXIV.

² *Supra*, Bk. I., Ch. V., § 4.

³ Mill, Bk. I., Ch. VII., § 6.

⁴ Bk. III., Ch. II.

case. Unless labour receives that minimum of the fruits of industry which is necessary for life and working efficiency, there will speedily be no fruits to distribute. Even slaves cannot work without sufficient maintenance, clothing, and shelter. This transient possession of these elementary goods may be regarded as the lowest form of private property, which thus becomes an essential factor in all production.

§ 3. *The Economic Bases of Private Property* — (b) *Contract*. It is evident, however, that the more the principle of division of labour (in its widest sense) is extended, so much the more difficult does it become to secure to each worker his share of the complex result. Under the old system of cultivation in common, an actual division might be made of the produce, but long before the complexity of modern industry has been reached, such a distribution in kind of the various products of a community becomes, if not impossible, highly inconvenient.¹ Under a money economy the only effective plan is to divide the money value of the products, and division of labour has never attained any high degree of development except under a system of money payments. Accordingly, for the simple labour basis of property, we must substitute (b) *freedom of contract*. A man is entitled to that share of the joint product of industry which he can obtain by fair contract, that is to say, without force or fraud. At this point, according to the view here adopted, it is still more necessary than before to get rid of the ethical conceptions naturally suggested by such terms as "fair" and "free." It is sufficient for our purpose to look upon freedom of contract as the form of economic distribution which corresponds to division

¹ The "truck" system, or payment in kind, is at present prohibited in most industries in the interests of the labourer. A curious poem, written about the time of Edward IV. (*Political Songs and Poems*, Roll's Series, Vol. II.), shows that the cloth-makers in particular compelled the workers to take half of their wages in merchandise, and the writer proposes that "wyrk folk be paid in good moni." And a law to this effect was passed in the fourth year of Edward IV. Compare *infra*, Ch. XII.

of labour as the form of economic production. It is, of course, conceivable as theoretically possible that under a system of state socialism of some kind every individual might have allotted to him by authority his task and his reward, and that division of labour might still be ramified into the same multitude of channels and capillaries as at present. It is also conceivable, and much more probable, that if anything of the kind were attempted, division of labour would soon shrivel up into a few simple employments. Socialism of this extreme kind, however, may be relegated to the chapter on Utopias. As industry is constituted at present, its life-blood is freedom of contract. The exceptions, numerous and important as they may at first sight appear, only prove the rule. Many of them, indeed, in spite of their semblance of compulsion, are intended not to limit freedom of contract, but to give it reality. Others have been adopted on grounds professedly ethical or political, with the full consciousness that to some extent they may be anti-economic. But, on the whole, we are justified in regarding acquisition by free contract as the principal economic title to private property under a complex system of division of labour. I pass over for the present acquisition by inheritance or testamentary bequest, as between the dead and the living the idea of contract is obviously inappropriate; whilst gift *inter vivos* is not only comparatively rare, but may be reduced economically to a form of contract.

In substituting for the right to enjoy the results of one's own labour the right to enjoy the results of one's own contracts, it is not implied that according to any ethical standard of justice the latter is the exact equivalent of the former. I repeat that ethical ideals are beside the question. The point is, that private property resting on freedom of contract in a modern industrial organisation, corresponds to private property resting on the basis of labour in a simple stage of development. A man cannot consume the eighteenth part of a multitude of pins or the millionth

part of a big ironclad in the same direct manner that he can consume his share of the produce of the soil. He can only spend his money wages, and the amount of these wages is, with free labour, a matter of stipulation. The causes which determine the shares of the joint producers under this system will be investigated subsequently; at present we are only concerned with the general principle of contract as the basis of private property.

§ 4. *Economic Bases of Private Property* — (c) *Capital*. Hitherto we have regarded property as directly or indirectly connected with labour. But as already explained in the first book, capital is an essential factor in production. Accordingly, *mutatis mutandis*, the same argument may be applied to capital as to labour. A man must have the right to his savings or he will not save; more generally, in order that capital may be produced and reproduced, those who produce it must be entitled to the proceeds, or at any rate, to such a share as is sufficient to make the capital forthcoming. Thus, corresponding to the labour basis we have (c) the capital basis of private property. If, however, the shares of the labourers who work in combination are determined by contract, so also must be the share of the capitalist. In the concrete, interest and profits and wages are determined in a modern industrial society by contract and not by authority. The precise terms of the contract depend, of course, upon certain general conditions, the most important of which are indicated by the terms "supply" and "demand."

An important practical deduction may be at once derived from this basis of contract. Even leaving out of account inheritance and bequest, scope is given for large accumulations of wealth in the hands of individuals, and, as a consequence, for great inequality of fortunes. It is owing mainly to this inequality that socialists show such bitter hostility to freedom of contract. They are prepared to admit on principle the justice of the labour basis, but they deny that contract is an adequate means to attain the end,

and advocate in its place some form of authority or control. As regards capital, they do not allow it originally to stand on the same footing as labour as a claimant for a share in the national produce, and they maintain that the share it obtains in the present system is altogether exaggerated, owing to freedom of contract. Apart altogether from ethical considerations, and taking up the purely economic position here adopted, they strenuously deny that freedom of contract is a necessary or even an advantageous stimulus to the exertion of labour or the creation of capital. The criticism of this opinion may be deferred; it seemed desirable, however, to anticipate the discussion of details by a general statement, on account of its bearing upon one of the conditions precedent to freedom of contract—namely, security.

§ 5. *On Security as a Condition Precedent to Freedom of Contract and Private Property.* The meaning and the importance of security have been admirably propounded by Bentham. "In order to form," he writes,¹ "a clear idea of the whole extent which ought to be given to the principle of security, it is necessary to consider that man is not, like the brutes, limited to the present time, either in enjoyment or suffering, but that he is susceptible of pleasure and pain by *anticipation*, and that it is not enough to guard him against an actual loss, but to guarantee to him as much as possible his possessions against future losses. The idea of this security must be prolonged to him throughout the whole vista that his imagination can measure. The disposition to look forward, which has so marked an influence on the condition of man, may be called expectation—the expectation of the future. . . . Expectation is a chain which unites our present and our future existence, and passes beyond ourselves to the generations which follow us. . . . The principle of security comprehends the maintenance of all these hopes." "Property is only a foundation of expectation,—the expectation

¹ *Principles of the Civil Code*, Pt. I., Ch. VII.

of deriving certain advantages from the thing said to be possessed. There is no form or colour or visible trace by which it is possible to express the relation which constitutes property. To have the object in one's hand, to keep it, to manufacture it, to sell it, to change its nature, to employ it, all these physical circumstances do not give the idea of property. A piece of cloth which is actually in the Indies may belong to us, whilst the dress which I have on may not be mine. . . . The idea of property consists in an established expectation — in the possession of power to derive certain advantages from the object according to the nature of the case. . . . With respect to property, security consists in no shock or derangement being given to the expectation which has been founded on the laws of enjoying a certain portion of good."

Just as expectation is an essential part of the idea of property, present enjoyment being small relatively to anticipated fruition, so also as regards contracts in general, from the very nature of the case the fulfilment, on one side at least, is deferred.¹ In nearly all industrial contracts time is an element of the first importance. It follows at once that, without security, freedom of contract is an empty phrase. Accordingly, both directly through expectation and indirectly through the basis of contract, the institution of private property rests upon security.

Bentham does not attempt to conceal — on the contrary, he brings out with marked emphasis — the continual opposition between security and equality. But in cases of conflict which are irreconcilable, he has no doubt as to which ought to be upheld. "When security and equality are in opposition there should be no hesitation; equality should give way. The first is the foundation of life, of subsistence, of abundance, of happiness; everything depends on it. Equality only produces a certain amount of happiness, besides which, though it may be created, it will always be imperfect; if it could exist for a day, the revolu-

¹ Cf. Pollock's *Principles of Contract*, p. 5.

tions of the next day would disturb it. The establishment of equality is a chimera; the only thing which can be done is to diminish inequality."

Even more strongly is the paramount supremacy of security enforced in the passage which leads up to this statement: "In consulting the great principle of security, what ought the legislator to direct with regard to the mass of property which exists? He ought to maintain the distribution which is actually established. This, under the name of justice, is with reason regarded as his first duty; it is a general and simple rule, applicable to all states, adapted to all plans, even those which are most opposed to each other. There is nothing more diversified than the condition of property in America, England, Hungary, Russia; in the first country the cultivator is proprietor; in the second he is farmer; in the third he is *attached to the soil*; in the fourth *he is a slave*. Here the supreme principle of security directs the preservation of all these disturbances, how different soever in their natures, and though they do not produce the same amount of happiness. For how shall a different distribution be made without taking from some one what he possesses? How shall one party be stripped without attacking the security of all? When your new distribution shall be disarranged, which it will be, the day after its establishment, how will you be able to avoid making a second? Why should you not correct this also? And in the meantime what becomes of security? of happiness? of industry?"

§ 6. *Criticism of the Views of Bentham.* I have given at some length in the preceding section the opinions of Bentham on security, because by no writer with whom I am acquainted is the principle more clearly stated, and for the present it is with great principles only that we are concerned. The last passage quoted, however, would seem to imply that even slavery and serfdom, once definitely established, are not to be disturbed on account of the shock to security. The violent conflict of such a doctrine with

common sense morality is too obvious to call for remark, but taking, as before, a purely economic standpoint, the position in this extreme form seems untenable. For, after all, security itself is only a means to an end, and economically that end, in the view here taken, is the efficiency of the productive organisation of society. But if it is admitted that slavery is the least efficient of all kinds of labour, surely it would be better to endure the momentary shock of disturbance than to suffer from the continuance of the system.

In the same way, as regards the fulfilment of contracts, it is easy to conceive of cases in which it would be not only morally wrong (according to common sense), but economically inexpedient, to enforce the obligation. Freedom of contract is, like security, a means only and not an end in itself; that is to say, industry is not organised to promote freedom of contract, but freedom of contract is encouraged to promote industry.

To a certain extent, the force of these objections is admitted by Bentham himself. Such a "civil inequality" as slavery he allows ought to be corrected, but in the process attention ought to be paid to the rights of property, and the operation should be gradual. He also gives examples of "sacrifices of security to security," *e.g.*, for defence against internal or external enemies, or for the prevention of physical calamities. For such purposes the state must take from some to give to others; and, logically, taxation is a violation of security. But then, "all government is only a tissue of sacrifices; and the best government is that in which the value of these sacrifices is reduced to the smallest amount."¹

To resume: Bentham is right in insisting on the absolute importance of security as an essential condition of modern industrial organisation, and his teaching deserves special attention at the present time. But he is wrong in

¹ This statement is obviously too extreme. See the "social dividend" theory of taxation, Bk. V.

assuming, as he often does, that security is not so much a condition as an efficient cause of industry.

He is wrong, too, in asserting that security is entirely the work of the laws. Customs of various kinds, which can only by a fiction be described as laws, may suffice in early stages of society to afford a high degree of security, whilst in most highly developed societies, the principal basis of security is rather good faith than the fear of legal sanctions. "It is the confidence reposed and deserved by the many which affords facilities for the bad faith of the few, so that, if colossal examples of dishonesty occur, there is no surer conclusion than that scrupulous honesty is displayed in the average of the transactions, which in the particular case have supplied the delinquent with his opportunity."¹ The law is indeed prepared to enforce the performance of contracts in case of need, but if every contract required the intervention of the law, there would be an end of contract and security.

The principle of security will demand further examination, in connection with compensation for the disturbance of vested interests.

§ 7. *On (d) Prescription as an Economic Basis of Property.* The legal principle of (d) prescription, namely, that undisturbed possession for a certain term of years shall suffice to establish a valid title, may also be supported on purely economic grounds. In the first place, there is security, which would be impossible if there were no *finis litium*, and if a person were always liable to be challenged to prove his claim over an indefinite period. Next, there is the series of contracts to which the actual possession may have given rise, and which could not be upset without great disturbance to purely innocent parties. Finally, there is the actual waste of money which would be involved in legal and other expenses connected with the change of ownership.

¹ Maine's *Ancient Law*, Ch. IX., p. 306. The whole of the chapter on the history of contract is highly instructive, as regards the subject of the present chapter.

The principle of prescription is of interest, not so much on account of the frequency or importance of its application in practice, but because its economic character is specially prominent. The conversion of a bad title into a good one by the mere lapse of time throws a strong light on the nature of security. This is well illustrated by the case of the appropriation of land and other natural agents, a case which, both in view of recent proposals, and as an example of principles, deserves careful examination. It seems best, however, to treat in the first place of Bequest and Inheritance.

CHAPTER III.

BEQUEST AND INHERITANCE.

§ 1. *General View of Bequest and Inheritance.* It is obvious, on simple inspection, that bequest and inheritance involve conceptions that are logically opposed. If bequest is altogether unrestricted, a person can distribute his property after death as freely as he can during life; he may cut off his children with a shilling, and leave the rest "to build a house for fools or mad"; the only condition he must obey is to declare his intentions in due form before it is too late. If, on the other hand, certain rights of inheritance are allowed, *e.g.*, as regards certain forms of property, such as land, or in favour of certain persons, such as wife or children, freedom of bequest is so far restricted. In the progress of society, regarded historically, the general movement has been to extend bequest at the expense of inheritance. "It is doubtful," says Maine,¹ "whether a true power of testation was known to any original society except the Roman." The causes of this movement are highly complex and varied; religious, ethical, and legal, as well as economic. I shall, in accordance with the plan followed throughout, only discuss the latter. I may remark, however, that the great differences which at present prevail in the laws² of different nations, equally in the front rank of civilisation, show that the economic have been largely influenced by other elements. I may

¹ On the general question, *cf.* *Ancient Law*, Chs. VI. and VII.

² Compare the laws of France and England, and even those of England and Scotland.

also take the opportunity of again insisting on the position explained in the introduction to this work, that because it is convenient for scientific purposes to isolate as far as possible the economic phenomena, it does not follow that they can be so isolated in practice, and still less, that they ought to be so isolated. No one would propose that the laws of bequest and inheritance should be framed entirely on economic considerations, especially with the somewhat narrow meaning of the term here adopted. It is enough for the present purpose if it be admitted that the economic elements are of sufficient importance to be studied separately; the rest may be left to the moralist and the jurist.¹ I proceed, then, to examine the principles of inheritance and bequest from the point of view of their connection with the productive organisation of society, and, as in the preceding chapter, I shall, first of all, take the modern industrial system.

§ 2. *Inheritance.* Mill boldly affirms that the right of inheritance, as distinguished from bequest, does not form part of the idea of private property. He justifies the opinion by reference to the bases of this institution examined in the last chapter; the right to inherit the wealth of a dead person cannot be traced to the labour or the saving or the contracts of the heir; it is the dead, and not the living, who has accumulated the wealth by working and thrift and good bargains. The state as the partner in the business, who provides the field of action and affords security and protection, might have a just economic claim, but mere blood relationship — the mere accident of birth — is supposed to give no right, in accordance with fundamental principles. The only principle which on this view might be advanced as at all plausible, is that of prescription. But here the reply is obvious: there can be no prescription of institutions. If such a thing were possible, all reform

¹ For an excellent analysis of all the most important principles involved, and their variations, the reader may consult Professor Sidgwick's *Elements of Politics*, Ch. VII.

would be impossible. And we may go further, and say that at the present time the argument from antiquity has been turned round; under the influence of the theory of evolution, and the contemplation of modern progress, we have begun to look upon the wisdom of our ancestors as foolishness; at the least, we are inclined to maintain that in ancient times the conditions, both moral and material, were different, and that an institution that was beneficial under certain conditions is not likely to be so when the conditions have changed. Every one admits that any law may be changed; the question may be one of expediency or morality or economy, but the reverence for the past, as such, is now not part of religion, but of superstition.

It is worth noting also, that, in this particular case of inheritance, the ancient conditions were certainly different. The family was in general the real unit of society, and the family was regarded as a corporation that never dies;¹ if extinction was threatened by natural causes, artificial rep-
aration was resorted to in the form of adoption. Accordingly, there was no room for bequest so long as this was the ruling idea, and after bequest was instituted it was for a long period used, not for the purpose of disinheriting children, but to provide for those who, technically or legally, were no longer members of the family. But one of the most characteristic features of economic progress has been the disintegration of the family; freedom of the individual has displaced the bonds of blood relationship, at any rate to a considerable extent.

Still, it may be possible to justify inheritance on subordinate grounds, even if it cannot be deduced from the fundamental principles of property. The grounds commonly advanced are: (1) The state should do what the owner would have done. This follows from the position that bequest is assumed to be unrestricted,—as being part of the general idea of property,—and intestacy is a mere accident. In Mill's treatment of this argument we have a

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¹ Cf. Maine's *Ancient Law*.

good example of the confusion that arises from the introduction of ethical conceptions. He maintains that since only general rules can be laid down by the state,—since it is impossible to discover the intentions of particular individuals after death,—the state should frame its rules by considering what the owner *ought* to have done, that is to say, according to some ideal of duty. But this is to turn the point of the argument. Take, for example, the law of primogeniture: on the argument usually advanced, the law may be defended on the simple ground that it is founded upon a custom actually prevalent as regards estates in land, and yet at the same time it may be argued, on moral grounds, that the custom is bad. The essential point is simply, what is the custom? (2) The second argument commonly advanced in favour of inheritance is founded on the supposed claims of the relatives. It is supported by an appeal to the general principle of security and the necessity or expediency of fulfilling just expectations. But then, as before, the difficulty arises as to the proper interpretation of justice, and we are again forced to wander in search of ethical ideals. As the result of his quest (and guided for the most part by Bentham), Mill arrives at a rather startling conclusion. He would give children the right to such a portion of wealth as would give them a fair start in the world, and the amount would be determined on Stoic rather than on Epicurean principles. Illegitimate children are to be placed on the same footing as legitimate. Collaterals are to have no claim, and the surplus, after the children are provided for, is to go to the state. I do not propose to discuss this position on ethical grounds, although it does not seem very difficult to attack. There is no need to appeal to ethics; the appeal to consistency is sufficient. Mill asserts that the liberty of bequest, which on principle he admits, takes away any injustice from these limitations on inheritance. It is due to the parents to give them the right of leaving the rest of their property to the children, if they please,

but it is not due to the children to have the right to make a claim. But if bequest is allowed, surely the principles of inheritance in case of intestacy ought to be decided according to the customs prevalent in the society, and the sense of public spirit will have to be much more highly developed before it becomes a general practice to leave property to the state in preference to children, or even remote relatives. At present, if a man left his fortune towards the payment of the national debt, his will would probably be contested, on the ground that he was of unsound mind. The only tenable conclusion thus appears to be that, *if* freedom of bequest is allowed, we must also allow inheritance on recognised customary lines in the accidental case of intestacy. But then the question arises: Are no limitations to be placed upon freedom of bequest, and is freedom of bequest an essential part of the institution of private property? In the following section an attempt is made to answer this question on economic grounds, which may, of course, be supplemented or controverted by other considerations.

§ 3. *Bequest.* The fundamental economic reason for allowing freedom of bequest as the general principle is found in the stimulus that is given to labour and saving. People will not toil and accumulate wealth for the purpose of enriching the state. The attempt to impose succession duties approaching a hundred per cent would be the greatest possible encouragement to wasteful extravagance.¹ It would be especially injurious where production is carried on on a large scale. Or, as usually happens with excesses of governmental interference, if an enactment of this kind was not mischievous, it would be useless. It would be evaded by gift under certain conditions, and we may be certain that trusts and legal fictions would give effect to the common sense morality or prevailing custom of the country.

¹ Compare the treatment of graduated taxation, Art. "Taxation," *Encyclopædia Britannica*.

But, although the general principle is admitted, it is quite possible that certain limitations or exceptions may be justified on purely economic grounds. Some of these are indeed obvious, and have been verified by experience.

(1) The interests of the public must not be sacrificed to satisfy the caprices of individuals. Thus, to lay down the order of descent for an indefinite period, as in entails in the strictest sense of the term, is plainly against the public interest.¹ Nor can such excessive freedom be justified by an appeal to the stimulus of accumulation; a man's interest in his descendants of the n th degree becomes smaller as n becomes larger.

(2) Similarly, it may be advisable to limit bequests to corporations of various kinds. Adam Smith was of opinion that, on the whole, endowments given for education had not been beneficial. At any rate, it will be admitted that after the lapse of a certain time the state should have the right of revision. Again, special restraints may be imposed on the bequest of certain kinds of property to corporations. Take, for instance, the case of land, which is obviously limited. It is said that at one time the mediæval church held more than a third of the land of England, and unless prevented by legislation the process of absorption might have continued indefinitely.

(3) These exceptions are obvious, but in most countries bequest is limited in favour of the children. In France, as is well known, the parental power of testamentary disposition over property is limited to a part equal to one child's share, the remainder being divided equally among the children. Apart from special objections to the inconvenience of dividing certain forms of property, especially land, there are objections derived from general economic principles. The limitation will not probably much affect the stimulus to accumulation on the part of the parents, but it may lessen the incentives to industry on the part of the children. As Dr. Johnson tersely remarked, the great

¹ The special arguments are given below.

advantage of primogeniture is that it makes but one fool in a family. Another objection is that undue limits are placed on parental control. It might well happen that one son, owing to special aptitudes for some business or profession, might with advantage obtain a larger share than the others, or, conversely, if one had succeeded and another had failed, an adjustment might be made on the death of the parent. The example of France also serves to show that the limitation in question may lead to an injurious restraint of population. On the other hand, under certain conditions such restraint might be desirable, and it is possible that the idea of providing a small competency for the children may lead to a rise in the standard of comfort.

Usually, however, the limitation is defended, on the ground that it leads to greater equality in the distribution of wealth. There can be little doubt that such must be the tendency, and, on utilitarian principles, this argument would have much weight. For the reasons given in the preceding chapters, I cannot regard equality as of such economic importance. Taking, as I have done, the productive organisation of society as the guiding principle of distribution, freedom must take the place of happiness; and freedom is likely to cause a certain degree of inequality.

Mill's desire to treat the question in a broad, philosophical manner, and not to confine himself to purely economic considerations, has again led him into a fantastical conclusion. He approves of the promotion of equality contemplated by the French law, but he objects to the means. Accordingly, he proposes that the state should limit directly the amount received by any person, including the children, either by bequest or inheritance. But, in the present constitution of society, this is to abandon altogether the right of freedom of bequest, and, but for the eminence of the writer who makes the proposal, it is hardly worth serious consideration.

CHAPTER IV.

PROPERTY IN LAND AND COMPENSATION FOR EXPROPRIATION.

§ 1. *Mill's Views on Property in Land.* Opinion, it has been observed, in social, political, and economic affairs, is an active force, and public opinion on various questions connected with land has been formed, to a great extent, on the principles laid down in Mill's treatise. To Mill, for example, may be traced the germs of various proposals for land nationalisation, for the establishment of peasant proprietors, for access to mountains, and for dealing with Irish land by peculiar methods.

It is true that Mill introduces many qualifications which, in the process of popular simplification, have been allowed to drop out of sight, but even with these qualifications some of his views appear to require modification.

His argument runs as follows. Since the fundamental conception of property is the right to enjoy the fruits of one's own labour and saving, this cannot apply directly to land considered as the raw material of the earth; land as such is neither made nor saved. Mill, as usual, lays stress on the moral aspects of the question, and appeals to natural ideas of justice. His position, however, may be best maintained on purely economic grounds. So far as the "original and indestructible" powers of the soil are concerned, the economic stimulus is not required for their creation or preservation, they are so far different from other forms of capital.

But we now pass to an important distinction. Mill points out that the use of land must be exclusive for the

time, a position which is supported on purely economic grounds. Exclusive use, however, does not necessarily imply private ownership. We might have periodical or even annual division, either by village communities or by the state, or the state might be the universal landlord, with tenants holding from it under various conditions. These methods, as will be shown presently, have all been more or less exemplified in different stages of development; private property in land, as we understand it, is of comparatively modern origin. Whether we consider land for agricultural or building purposes, some kind of exclusiveness is necessary; but the essential point is that occupation is not ownership. So far, then, Mill seems to countenance the extreme view that private property in land ought to be abolished.

At once, however, he introduces important qualifications. Though land in itself, he proceeds, is not the product of industry, most of its valuable qualities are, and, therefore, so far land must be placed on the same footing as other forms of property. Some of these qualities have only been attained by the labour of generations, as, for example, the drainage of fens, the embankment and diversion of rivers, the clearance of forests, and the gradual improvement of the soil itself by good tillage. So far the land is the result of labour and of saving, and we may even regard it, without much straining of language, as manufactured.

The logical conclusion then is reached, that, so far as the original qualities are concerned, property in land is not justified by the fundamental economic bases, but as regards the derivative qualities, the same principles are applicable as to movables.

But the next stage in the argument does not attain the same degree of cogency. "These are the reasons," Mill continues, "which form the justification in an economical point of view of property in land. It is seen that they are only valid in so far as the proprietor of land is its improver. Whenever in any country the proprietor, gener-

ally speaking, ceases to be the improver, political economy has nothing to say in defence of landed property as there established. In no sound theory of private property was it ever contemplated that the proprietor of land should be merely a sinecurist quartered on it.”¹ This position appears weak, both logically and practically. Why should the owner of any form of capital necessarily be the user of it? It has been admitted that most of the valuable qualities of land are capital in the economic sense, and it is certain that these qualities cannot be detached from such natural and original qualities as situation.

On all kinds of capital interest is received, and for the interest as such — as distinct from the wages of superintendence and other elements in profits — the owner does nothing. Then why should the owner of land, simply because he ceases to improve it himself, incur particular censure? From the nature of the case, there are limits in any given stage of agricultural practice to the improvements that can be made; there are even cases on record in which improvements have been carried too far. Use and ownership can be separated as regards land, just as in banks, railways, and all kinds of commercial undertakings. The tendency of modern industry has been to separate more and more interest, as such, from wages and profits, as is shown by the increasing amount of borrowed capital in the hands of employers.

The weakness of Mill's position is, however, best exposed by considering his views on compensation. “The claim of the land-owners to the land is altogether subordinate to the general policy of the state. The principle of property gives them no right to the land, but only a right to compensation for whatever portion of their interest in the land it may be the policy of the state to deprive them of. To that, their claim is indefeasible. It is due to land-owners and to owners of any property whatever, recognised as such by the state, that they should not be dispos-

¹ Bk. II., Ch. II., § 6.

sessed of it without receiving its pecuniary value, or an annual income equal to what they derived. This is due to the general principles on which property rests. If the land was bought with the produce of the labour and abstinence of themselves or their ancestors, compensation is due to them on that ground; even if, otherwise, it is still due on the ground of prescription. Nor can it ever be necessary for accomplishing an object, by which the community altogether will gain, that a particular portion of the community should be immolated. When the property is of a kind to which peculiar affections attach themselves, the compensation ought to exceed a bare pecuniary equivalent." This principle of compensation, it will be seen, is stated with such emphasis that a *pretium affectionis* is to be awarded in cases of expropriation. It follows, at once, that the state cannot hope to make a pecuniary gain by a transaction of this kind. Its present value must include the value of any prospective rise, and for the *pretium affectionis* there can be no return whatever. Accordingly, we are forced to make a long descent from the lofty position at first assumed, and are obliged to discuss the relative merits of state management and that of private ownership. Deferring, then, for the present, the examination of the principles of expropriation and compensation, which are not altogether so simple and obvious as Mill appears to think, I propose to point out the economic advantages of private ownership and the disadvantages of state management.

§ 2. *Economic Advantages of Private Property in Land.* The case we have to consider is not that of cultivating ownership, but that of the landlord and tenant. The principal example of the former, namely, peasant proprietorship, has already been examined critically, and the peculiar merits and demerits of large estates will be treated later.

The first advantage of the landlord and tenant system, as contrasted with state control of some kind, is that land — I am speaking now only of agricultural land —

comes under the influence of the competition of individuals. It is for the interest of the land-owner to obtain the highest rent and the best treatment of his land, and, speaking broadly, those will offer most for it who can make the best use of it. The agriculture of Great Britain is a good example of the excellence of this system. A land-owner almost invariably makes more out of his land by letting it to others than by cultivating it himself. The objections to State management are obvious and to my mind conclusive. The officials—the factors of the government—must either have the power at present possessed by the land-owners, with all its liability to jobbery and caprice, or else they must be bound down by most rigid rules of routine; it is difficult to say which evil would be the greater.

If, on the other hand, an attempt is made to get rid of the tenants by making them all owners, great difficulties are at once suggested. There is the danger of mortgages, in which case the real landlord is the Jew, and more is paid by way of interest than would have been paid in rent. If mortgages are forbidden by law, experience shows that the result will be higher usury, on account of the bad security. If the tenant is fortunate enough to be able to purchase outright without borrowing, he is forced to take a much smaller farm; the capital that he might have devoted to stock, and on which he would have earned profits, can now only yield a very low rate of interest.

Mill himself insists on the importance of improvements, and approves of ownership so long as the owner is an improver. But improvements of a very arduous kind, that involve considerable expense and a long period of time, are hardly possible without ownership. In Great Britain, so-called permanent improvements have generally been made by the landlord; and in Ireland, where this was not the case, there arose, practically, in Ulster a system of divided ownership, the tenant having the right to sell his improvements. In the most recent laws affecting agriculture, it is assumed, in Great Britain, that the landlord still

makes the permanent improvements, whilst in Ireland the principle of tenant right has been extended over the whole country.

It may of course be argued that the state, as universal landlord, would make the permanent improvements, but the appeal to history does not confirm this view. The case of the United States has already been mentioned,¹ and the opinion of Adam Smith on the crown lands may also be cited. "The revenue which in any civilised monarchy the crown derives from the crown lands, though it appears to cost nothing to individuals, in reality costs more to the society than perhaps any other equal revenue which the crown enjoys. It would, in all cases, be for the interest of the society to replace this revenue to the crown by some other equal revenue, and to divide the lands among the people, which could not well be done better, perhaps, than by exposing them to public sale."² He goes on to say that only lands which are sources of expense, and not of revenue, such as parks and gardens, ought to belong to the crown in any highly civilised monarchy.

It is sometimes maintained that land, if subject to private ownership, becomes a monopoly, and as such unjustifiable. This argument is supposed to derive its strength from the fact that land is limited. But so far as land is merely an instrument of production belonging to different owners, not in combination, there is no monopoly proper. The essence of monopoly is not limitation, but absence of competition. Mere limitation is essential to all wealth. In a country of peasant proprietors, no one would speak of monopoly, and yet there is limitation; in a country of large estates, the farms are let by competition, and, generally speaking, the land-owners cannot lower farmers' profits, or raise the prices of produce to the consumer. The latter consideration is especially clear if there is, as at present in the United Kingdom, keen foreign competition.

¹ Cf. Bk. I., Ch. II., § 4.

² *Wealth of Nations*, Bk. V., Ch. II., Pt. I.

The general conclusion to which this examination leads is, that the economic advantages of private ownership altogether outweigh those of state ownership. At the same time, however, it may be admitted that, without abolishing private ownership altogether, the state may advantageously impose certain restrictions and limitations,—some of a general character, and others specially adapted to peculiar circumstances. This subject, as regards agriculture, is of sufficient importance to require separate treatment. An introduction to the general principles, however, may be made by taking some other notable cases.

§ 3. *On the limited Quantity of Land in Certain Respects.* When we consider land, not as the basis of agricultural production, but as possessing other economic utilities, the argument in favour of private ownership is not so simple. Take, for example, the case of mountain scenery. The right of access would, as a rule, have very little commercial value. If the land were under sheep or cattle, the real injury would be very small, taking the country as a whole.¹ No one could maintain that the sheep-farming of Scotland would be appreciably affected by the public right of access to the hills. And if any injury could be proved and estimated, the proper remedy would be adequate compensation. If the farmer offered less rent, the land-owner would be entitled *prima facie* to a corresponding claim. From the purely economic point of view, however, opening up the mountains of Scotland would probably increase the wealth of the country, and eventually raise the rental, especially through improvements in the means of communication, that is to say, so far as the agricultural interests are concerned.

But when the land is mainly devoted to game,—especially deer,—the pecuniary loss to the land-owner might be greater. Here again, however, the case is simply one for fair compensation, whatever that may be. The total value of all the deer killed is insignificant; the keepers

¹ Of course, excluding dogs, and making certain restrictions.

and gillies could be employed much more advantageously, even supposing — what is by no means probable — that their occupation would be gone.

In a case of this kind, moreover, it must be apparent that the purely economic considerations are comparatively unimportant. That a civilised country should allow a foreign millionaire to make a new forest in the style of William the Conqueror, is intolerable. How can patriotism thrive if a man is not allowed even to look at the lakes and mountains of what he is supposed to call his native land? To revert to economic considerations, if the right of access can only be restored by compensation, let compensation be given; in the words of Adam Smith on the odious visits of the tax-gatherer: "though vexation is, not strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it."

Another case in which the limitation of land may call for restriction on private owners is that of building-land, especially in great cities. Here, in many instances, as is shown in the evidence given to several Royal Commissioners, there is often real monopoly of the worst kind. It is hardly necessary to point out that, from the economic point of view, insanitary dwellings and over-crowding are most detrimental to the efficiency of labour, both directly and indirectly. The owners who take these excessive rents perform no equivalent economic function. On the contrary, they not only injure the community by keeping up plague-spots, but they shake security and the whole institution of private property to its base. It is abuses of this kind that appear to justify confiscation and revolution; the commercial value of these slums is so great that full compensation seems impossible; people begin to ask if such evils are to be permitted out of deference to an abstract principle; and the economic considerations are enforced or set aside by appeals to natural justice and common-sense morality.

There have been in the past, and there still are, other cases in which the same difficulties arise. Forms of property have come to be established which the development of morality cannot tolerate; but, having been permitted by the law, and having entered into the circle of contract and exchange, it is felt that injustice would be done unless compensation were given. Take, for example, the abolition of slavery in the British Colonies. It is then of great importance to determine the grounds on which compensation should be given, and the methods by which it should be computed.

It is a fundamental maxim of political society, that the state has a right, in the interests of the public, to undertake any expropriation whatever. On this there can be no dispute. But in estimating the interests of the public, the question of compensation is always present. The state cannot set the example of robbery and plunder without affecting industrial security, and the greater the development of industry and credit, so much the more important is security. Still, as already pointed out, security is only a means to an end.

§ 4. *Economic Principles of Compensation.* As before, I shall endeavour to distinguish between the economic and the moral or political aspects of compensation. In any particular instance, the question will be actually decided by the resultant effects of a variety of opinions and sentiments. The purely economic element may, in some cases, be decisive, as, for example, when a government wishes to acquire for its own use lands or buildings of an ordinary kind. In such cases, the government is simply in the position of any individual member of the industrial community, and compensation follows from the general principles at the basis of private property.

In other cases, however, there may be a conflict between the economic and other forces. It may happen that the only obstacle to the immediate removal of some recognised abuse is the compensation to vested interests. The growth

of the sciences that bear upon public health in such matters as drainage, prevention of infection, and the like, may reveal the fact that great changes ought to be made in large cities, changes which might involve the destruction of a mass of buildings which, at present, yield a very large income. Ought the owners of these insanitary buildings to receive full compensation, and who ought to pay the compensation? The latter question is of great importance, because the resources of municipalities are obviously limited, and it may happen, that full compensation would impose an effective barrier to the improvements being undertaken.

Again, the development or alteration of public morality may call for some reform, the immediate effect of which would be to cause great pecuniary loss to certain individuals. It is conceivable that, with a reversion to an ancient puritanical type, the public would wish to abolish the liquor traffic, horse-racing, music-halls, and theatres, just as it has abolished cock-fighting and gambling hells. But this same puritanical type might have great respect for private property, and the cost of full compensation, if admitted, might again prove an effective barrier.

The economic principle of compensation in its most general form may be stated as follows: If the state has recognised legally certain forms of property and certain rights, if it has enforced contracts founded on these rights, even if it has tacitly permitted certain rights in property to grow up under laws that have fallen into desuetude, although not formally repealed, then full compensation ought to be given. On this view we cannot argue that moral conditions have changed, that the owners have broken the moral law, and that they ought to be punished by confiscation. As Mill says: "In doubtful cases the question would turn upon what, in the peculiar circumstances, was sufficient to constitute prescription; and whether the legal recognition which the abuse had obtained was sufficient to constitute an institution or only an occasional license."

Such being the general economic principle, what are the economic grounds on which it rests? The answer is, that any shock to security is an injury to the industrial organisation; it imposes a check upon freedom of contract and freedom of exchange generally; a single example of spoliation checks the spirit of enterprise, just as the failure of a single bank may bring on a commercial crisis.

We are now in a position to see that economically the principle of compensation possesses much more elasticity than is generally supposed. Just as in the human body it may be best for life and strength to lop off a limb, so in the body politic. Economic diseases may require vigorous remedies. If, then, a reformer can prove that the shock to security would be transitory and trifling, whilst the effects of the reform would be permanent and considerable, economically he has made out his case, and he may carry out his reform without regard to vested interests. Thus, contrary to what is generally supposed, the economic principle of compensation falls short of popular ideas of strict justice. It is much less rigid. Justice is conceived as an end to be attained, though the heavens fall. But security is only a means to national wealth; there are other objects of political union besides national opulence; and judicious and occasional violations of security may even increase opulence.

It is, however, most important to observe that in the matter of compensation the admission of theoretical exceptions is one thing, and the carrying them into practice quite another. There can be no question whatever that the simple practical rule of full compensation should never be infringed except on the strongest grounds. The indirect effects of a shock to security are extremely difficult to calculate, whilst the gains of the reform are liable to be exaggerated. The case is similar to that of free trade. It is easy to establish theoretical exceptions, but as a maxim of public policy it is generally better to carry out the simple principle than to attempt to work out the exceptions.

The best instruments of reconciliation between the just and the expedient are time, death, and taxes.¹ A long notice to present holders and to prospective heirs will satisfy justice and narrow the limits of compensation. It is, however, beyond the scope of this work to discuss the whole question.²

¹ Cf. Bentham.

² See the admirable treatment in Professor Sidgwick's *Elements of Politics*.

CHAPTER V.

COMPETITION AND CUSTOM.

§ 1. *Competition and Distribution.* As already explained, according to the plan of this work, the distribution of wealth is regarded as mainly dependent upon the organisation of society for production. For the sake of clearness of exposition in the preceding chapters of this book I have adopted the analytic method, that is to say, I have taken the fully developed conceptions of private property and freedom of contract, and endeavoured to unfold their meaning and to describe broadly their operation in a modern industrial society in which other influences may be regarded provisionally, as of such minor importance that they may be neglected. The system examined may, for the sake of brevity, be called the system of competition; competition is supposed to rule supreme both in production and distribution. Government provides a fair field or open market, and people make the best bargains they can as to the work they shall perform and the reward they shall receive; they accumulate or consume according to their fancy, and they leave their property to whom they please. In such a system there are of course combinations, but they are assumed to be the effect of the free actions of individuals; and in general all other combinations are disallowed by law.

But even in a modern industrial society, such as England, the actual influence of competition is modified by other forces which are too important to be neglected, and taking the whole world, these forces are, on balance, still

superior to competition. In the past the economic freedom of the individual was much more restricted, and the effects of these restrictions are still felt. It is convenient to have one word to indicate these various influences which modify competition, and probably the most suitable for the purpose is Custom.¹

§ 2. *Custom and Distribution.* Custom, as opposed to competition, includes, in the first place, the mere force of habit, the *vis inertiae*, which is opposed to any kind of change simply because it is a change. Habit of this kind is one of the chief causes of inequality of wealth; the paths to fortune are often made by breaking through routine. It is habit which is the chief element in the immobility of labour, and habit which imposes sumptuary laws on consumption. Habit, however, in this sense, is simply the negation of freedom.

But if economic forces are to be divided, as by Mill, into two great groups, and custom is to embrace all that is left over by competition, then habit, even if extended to include habitual obedience of the weaker to the stronger, is only an element in custom. Custom must be regarded not only as negative and inert, but as positive and active.

Take, for example, the mediæval period. Nothing is more common than the assertion that in the Middle Ages people were governed by custom, and that competition was practically absent. But to make the assertion true, custom must mean much more than conforming to habit and routine. It must include the variety of regulations imposed by the feudal system, the Church, the guilds and the corporations; it must include even the laws of the central government, for from the economic standpoint laws are simply customs with a peculiar sanction. The essence of distribution, according to competition, is freedom of enterprise; the initiative is taken by individuals according to their own judgment; in distribution by custom, on the

¹ For a critical analysis of custom, see Sidgwick's *Principles*, Bk. II., Ch. XII.

other hand, private judgment gives way to various forms of authority.

§ 3. *The Antagonism of Competition and Custom.* "The farther we look back into history," says Mill,¹ "the more we see all transactions and engagements under the influence of fixed customs. The reason is evident. Custom is the most powerful protector of the weak against the strong, their sole protector where there are no laws or government adequate to the purpose." This passage is a good illustration of the danger of taking broad surveys of universal history. A broad view is almost of necessity superficial. It is like studying geology through the wrong end of a telescope. Again, those reasons assigned for the great movements of history which are supposed to be evident, are generally erroneous. To assume that in "former times" custom prevailed—and the more the farther we go back—simply because it was the most powerful protector of the weak against the strong, is a hypothesis that will not stand verification. Customs, which have had great influence in moulding the economic structure of societies in different times and places, have originated and endured in various ways and from various causes, but whether as the generating or continuing force, the protection of the weak against the strong is probably rather the exception than the rule. It would be much nearer the truth to say that customs have enabled the strong to tyrannise over the weak; and that only with the breaking down of customs the weak have escaped from slavery, serfdom, and other forms of oppression. This contention is borne out by reference to other customs, as, for example, religious superstitions²; the attempt to assign what we should consider rational motives has generally only misled the investigator.

As already stated in the introduction, it is impossible to combine the systematic treatment of economic principles

¹ Bk. II., Ch. IV., § 2.

² Cf. *The Golden Bough*, by J. G. Frazer.

with an adequate account of the economic history even of a single country. At the same time it has been maintained that it is not sufficient, if political economy is to be regarded as a positive science, to make deductions from a few simple and general hypotheses. A large part of the remainder of the present book will accordingly be devoted to the examination of some of the principal modes in which competition has been modified by custom, using both terms in the widest sense. A description of all the modes is obviously impossible; but enough may be accomplished to throw light on the general problems of distribution. The principle adopted in the selection of customary forces will be to take those which have most influence, directly or indirectly, on various existing systems.

With the leading idea that the distribution of wealth is intertwined with the organisation of society for productive purposes, we may take in order land, labour, capital.

We have to answer two questions or groups of questions: (1) How are the occupation of land, the conditions of labour, and the employment of capital determined in the absence or modification of the system of private property? (2) How are rents, wages, and profits determined in the absence or partial suppression of competition? We shall then be in a position, in the next book, to consider these three great classes of income as cases of value mainly governed by freedom of exchange.

CHAPTER VI.

CUSTOM AND VILLAGE COMMUNITIES.

§ 1. *Custom as affecting the Ownership and the Occupation of Land.* To the average Englishman no distinction is more sharply marked than that between the landlord and tenant. It is commonly supposed that land belongs to its owners in the same sense as money or a watch. This has not been the theory of English law since the Conquest, nor has it been so in its full significance at any time. No absolute ownership of land is recognised by our law-books, except in the crown. All lands are supposed to be held immediately or mediately of the crown, though no rent or services may be payable and no grant from the crown is on record.¹ The same view is expressed by another eminent authority: "The first thing the student has to do is to get rid of the idea of absolute ownership. Such an idea is quite unknown to the English law. No man is in law the absolute owner of lands. He can only hold an estate in them."²

When we consider the powers of a modern land-owner over his land, that he may let it, mortgage it, sell it, leave it by will, allow it to run to waste, build on it, or sow it with salt, without any reference to the crown, the distinction may seem to partake of the character of a legal fiction. But the distinction—like the survivals of rudimentary structures in animals—has important bearings upon the

¹ This passage is abbreviated from Sir F. Pollock's *Land Laws*, p. 12, a work to which I am much indebted in many problems connected with land.

² Williams' *Real Property*, p. 18.

history of the development of our present land system. It recalls the time when, under feudalism, the obligations imposed on possession were very real and the rights of property proportionately limited.

Similarly, to the average Englishman the remnants of the "run-rig" system in Scotland and Ireland, and of peculiar rights over commons in England, appear to be only curious and inexplicable antiquities. But, on examination, they lead back to a period of what — by contrast with the present system — can only be described as a general system of ownership and cultivation in common.

As might be expected, the historical is confirmed by the comparative method. Under similar economic conditions, similar land systems have arisen in various parts of the world. But all nations have not been equally progressive, and accordingly, we still find living examples of village communities and of feudal obligations.

The object of the present chapter is to give some account of village communities. It is a subject to which in recent years great labour has been devoted; on many important points opinions have been modified and remodified, and are still unsettled.¹ Into these controversies it is impossible to enter; I shall only attempt to describe the principal features of certain prominent types, and to give a few of the notable examples.

§ 2. *The Russian Mir.* A comparison between the modern constitution of the *mir* (the Russian village community) and that described in its charters, proves the widely different character of the two, while the differences between them support the theory of a natural evolution of the community, an evolution not yet completed in more than one part of the Empire.² It is interesting to trace

¹ See *Villeinage in England*, by Paul Vinogradoff, Introduction, pp. 1-39.

² *Modern Customs and Ancient Laws of Russia*, by Maxime Kovalevsky, p. 73. Throughout this section, I am much indebted to this excellent work.

the principal stages in the development, not only on account of the *mir* itself, — “Russia will revolutionise the world with her system of the *mir*” is a saying attributed to Cavour, — but because it throws a strong light on the development of village communities in other parts of the world. The earliest mode of land-tenure in Russia is connected with the undivided household, or “great family.” All over Russia examples of these family communities are still found living under the same roof in numbers varying from ten to over fifty. Blood relationship is the main bond, but adoption often takes its place. The house-elder has none of the extreme power of the Roman *pater familias*; he is but *primus inter pares*, the president of a council formed of all the grown-up members. He represents the household before the authorities of the village community, and those of the wider area (the *volost*) embracing several villages. He arranges the work in the fields, if necessary, hires additional labour, or, in the contrary case, sends away members of the family to seek employment elsewhere. If a member is absent he sends his earnings to the household, and they, in turn, look after his wife and children. Almost the only form of private property consists in the private earnings of the girls who attempt to accumulate a dowry.

The modern system of village communities is descended from the system of great families which was once diffused all over the Russian Empire. At first, when land was abundant and population scanty, each household was allowed to sow as much ground as it could till; when the harvest was reaped the land was abandoned and a new piece taken up. But as land became relatively scarce, a distribution was made, under the supervision of the village authorities, and eventually the parcels of land came to be retained for three years, at the end of which they were returned to the community and a new appropriation was made. Side by side with the growth of this process of distribution, there appears to have been to a large extent a disintegration of the great families.

The pasture and forest land were subject to a community of ownership, and sometimes belonged to several villages (the *volost*). Every member of the *volost* had a right of unlimited use, but strangers had no such right. The points of peculiar interest in contrasting the earlier with the later system are that at first serfdom was almost unknown, that there was considerable irregularity in the land obtained by different homesteads, and that there was at first no periodical distribution.

Apart from these free Muscovite communities, there were established—especially by the monasteries—dependent communes analogous to those on the mediæval English manors. Each manor contained so much demesne land, and so much was held by the dependent households. The peasants performed so much labour (generally three days a week) in return for the possession of their lands. Up to the end of the sixteenth century they had the right of free removal.¹ Apart from these feudal obligations the peasant land was treated as in the free villages. The general characteristics of the old Russian community are thus summarised by M. Kovalevsky²: “It was a kind of ownership based on the idea that the true proprietor of the land was none other than the commune. The rights of the commune to the soil occupied by the individual households appears in the indivisibility of the waste and forest lands, and in the fact that vacant shares are regularly disposed of by the commune, and that nobody is allowed to occupy a piece of ground lying within the limits of the village commune, unless he is authorised by the local authorities. Arable land and meadows are, as a rule, in the hands of private households, which pay taxes and perform manorial labour in direct proportion to the amount they own. This ownership does not suppose the existence of certain limits which nobody is allowed to infringe. It implies only the right to have a definite share in the three fields which constitute the agricultural area of the village.

¹ Kovalevsky, *op. cit.*, p. 90.

² *Ibid.*, p. 92.

The shares are not equal, but differ in direct proportion to the payments which the household is called upon to make, partly to the state, and partly to the lord of the manor. Periodical redistributions are unknown, and no mention is made of the run-rig system of some modern English and Irish manors."

In the transition to the modern system we find established the principle of equal division of the soil among the individual members of the *mir*, and periodical redistribution to secure this equality. The chief causes were the increase of population and the consequent abandonment of the practice of migration. Under the old system, land-owners tried to attract colonists to their waste lands by granting free occupation for a time, and any villagers could easily find new homes if dissatisfied with their native place. But during the seventeenth century serfdom became the general rule and free migration was prevented. A little later (A.D. 1719), Peter the Great abolished the land tax and substituted a capitation tax, all the members of the village being mutually responsible.

When the taxes were no longer levied according to the land possessed, but according to the persons attributed to it for taxation, the inequality was so great that the peasants demanded redistribution in equal shares. Accordingly, redivisions of the lands were made for periods varying from three to nineteen years.

The abolition of serfdom took place in 1861, but the peasants still possess a distinct organisation for administration, and live under a different set of laws. Only those of peasant blood can vote in the assemblies and share in the allotment of land. The ostensible reason of the exclusion of the upper classes was the fear of the restoration of feudal power. Not only the "squires," whether noblemen or merchants, but also the parish priests, are excluded from the village assembly. M. Kovalevsky justly calls attention to the evils which result from the absence of persons of education and position; progress in sanitation and agri-

culture is very slow; and the rich peasants (*the eaters of the mir*), who have amassed their wealth by usurious practices, obtain undue influence.

The arrangements for the partition of lands and the apportionment of taxation are made by the popular assembly of the *mir*, a majority of two-thirds being required. By the Act of Emancipation, the state advances money to the communes to pay for the land which the feudal proprietor was forced to surrender. As soon as the peasants pay back this money, they become legal proprietors. The payments may be made either by the whole commune or by separate households. Thus the way is opened for the acquisition of private property in land.¹ This provision has already been largely taken advantage of, and, from year to year, in an increasing proportion.

In the expropriation of 1861, only the arable land was affected, the waste and forest being left to the lord of the manor. As a consequence, the communes were obliged to diminish the number of their cattle and to convert some of their arable into pasture. Fuel is also only obtainable, in many places, in return for labour on the lord's demesne.

As regards the arable land, the commoners, in making the distribution, consider both fertility and situation. They have a number of large open fields (corresponding to the English "shots" and "furlongs"),² and in each of these every householder receives a number of strips equal to the number of taxed persons in his household. In this way the possessions of each household are intermingled, in the way so graphically described by Mr. Seebohm, as arising from the old English village community.

The meadows are often mown in common, the hay being equally divided. The three-field system of rotation—namely, the winter, summer, and fallow—is almost universal. The fields become common pasture after the

¹ The owner cannot sell it to a stranger without the consent of the *mir*, which has always the right of pre-emption.

² See Mr. Seebohm's *English Village Community*, *passim*.

harvest is gathered. From the methods of division and cultivation, it follows that the same system of agriculture must be followed by all at the same time, — *e.g.*, ploughing, sowing, reaping; this again involves a great deal of mutual help or combination of labour.

From the economic standpoint, the most striking objections to the *mir*, which also seem to render its long continuance under modern conditions doubtful, are, (1) the natural growth of population under the system of equal division. Hitherto this increase has been slow, owing partly to the large mortality of the children, and partly to the women being much older than their husbands, and to the prevalence of immorality. But the infant mortality might readily be lessened, and the system of unequal marriages, which rests on the convenience of the head of the family in obtaining women servants by the marriage of his boys, seems to be falling into disfavour. (2) The second objection lies in the constraint placed upon individual enterprise by the compulsory cultivation according to fixed methods, in the impossibility of highly intensive cultivation with the periodic divisions of the land and the absence of enclosures, and in causes similar to those which, in England in the fifteenth century, secured the victory of several (enclosed, individual) over champion (non-enclosed, common) cultivation.

“The village community,” says the author to whom I have so often referred, “that venerable survival of an epoch closely akin to the patriarchal, will disappear in Russia as it has already disappeared in other countries of Europe. It will give way to private property in land unless, and this is not very likely under present conditions, it be completely transformed by the extension of communistic principles to capital. Those who, like myself, do not believe in the possibility of leaps and bounds in matters of social progress, will probably consider that such a state of things belongs to the number of those dreams, the practical realisation of which is to be looked for only in a re-

mote future." This judgment, in the opinion of the present writer, is the only one possible on the application of the historical and comparative methods.¹

§ 3. *Other Examples of existing Village Communities.* Next to Russia, India is the most important example of the present existence of village communities, although in the manner described by Sir H. Maine,² their primitive simplicity and essential features were sacrificed for a time, at least, to alien English and Mohammedan law, the *zemin-dar* or official collector of customary taxes having been converted into a kind of manorial proprietor. In recent years, however, the tendency has been to protect these communities, and over large districts to regard them as the agricultural and fiscal unit. The general features — allowance being made for the differences in climate — are not unlike those of the Russian *mir* and the early Teutonic settlements. There is the division into strips, and the cultivation according to minute customary rules of the arable portion, and there is a certain portion of waste enjoyed as pasture by the different members. The village consists of households, each under a despotic head, the family life being characterised by extraordinary secrecy and isolation. In many communities the customs are declared

¹ Compare E. de Laveleye, *Primitive Property*, Ch. III., "Economic Results of the Russian Mir."

A more favourable view of the *mir* is taken by J. D. Field, in his excellent work on *Landholding, and the Relation of Landlord and Tenant in Various Countries* (Ch. X.). This work, however, was published in 1883, and conditions have been changing rapidly. The account of the development of the *mir* and of the results of the Emancipation is very full and clear, and gives several excellent analogues.

The essay on "The Russian Agrarian Legislation of 1861," in the *Cobden Club Systems of Land Tenure*, by Julius Faucher, supports the view taken in the text: "Had the ancient Russian villages not been communists, they would not have become slaves, . . . and (as regards the existing race) anything rather than communistic habits and leanings are to be expected from them as free men; and I hope it will be so, in the general interests of civilised humanity" (p. 350).

² *Village Communities*, Lecture IV.

and interpreted, not by a council of elders, but by the headman alone, his office being sometimes hereditary and sometimes nominally elective. The various trades or crafts necessary to a self-supporting village are also often hereditary, *e.g.*, the blacksmith, the harness-maker, etc.¹

In Java a system prevails closely analogous to that of India. The village is jointly responsible for the payment of taxes, and there is common use of the waste. The rice fields are periodically divided amongst the village families, and the houses and gardens are private property. Irrigation is conducted according to communal rules and plans.²

The *Allmends* of Switzerland furnish another example of common cultivation. These are lands belonging to the communes, the right of use, however, being hereditary in certain families only, and most residents, even of long standing and although having political rights, are excluded. The *allmend* furnishes wood for fire and building, pasture for cattle on the *alp*, and a certain portion of arable land. In some cases there is still periodical division of the land, in others the land is let and the proceeds devoted to the expenses of the commune.

§ 4. *Survivals in Great Britain.* In Scotland, in the crofting parishes, we find, as a rule, that the tenants have a certain amount of hill ground on which they have the right to pasture so many sheep or cattle, the number varying in different cases according to the holding. As soon as the crops are gathered the ground is thrown open in the same way. There are, however, no periodical divisions, and the village had no rights not derived from the feudal proprietor until the recent legislation, giving effect to presumed custom, established fixity of tenure at a fair rent, and made provisions for consolidating holdings.

¹ For a most elaborate account of the Indian systems, see Field's *Land-holding*, *op. cit.*, *supra*.

² Cf. De Laveleye, *Primitive Property*, Ch. IV. See, however, the criticism of De Coulanges, *Origin of Property in Land*, p. 113 (translation).

In England there still survive a number of commons and lammas-lands in which certain members of a village have definite rights, and there are abundant traces of the old agricultural communities. In most of the countries of Europe where private property has become the rule, there are also survivals which point to the wide prevalence of customary cultivation in common. The work of Mr. Seeböhm, on the historical development of the English Village Community, in which, like a geologist, he proceeds to construct the past out of fragmentary and scanty records, deserves the attention of every student of political economy as a brilliant example of the historical method. His results may require modification,¹ but his mode of treatment is always suggestive and fruitful. Although nominally this work is confined to England, the search for a rational explanation has led the writer to make a wide survey of many other countries at different times.

Before Mr. Seeböhm's work appeared, many writers had called attention to the wide prevalence of common cultivation in England in recent times. A passage is quoted by Sir Henry Maine² from Marshall's *Treatise on Landed Property* (1804), in which the writer, from personal observation of "provincial practice," attempts to construct a picture of the ancient agricultural state of England. He notices the division of the arable land into three great unenclosed fields adapted for the regular triennial succession of fallow, wheat (or rye), and spring crops (oats, beans, peas, etc.). He describes also the division of these fields into strips, and the modes in which the meadows and the waste were used. He gives also statistics on the extent to which, in his day, these open and common fields existed, which have been summarised by the late Professor Nasse.³ Mr. Seeböhm⁴ points out that taking the whole

¹ Cf. Vinogradoff's *Villeinage in England*.

² *Village Communities*, p. 90.

³ *The Common Field System of England in the Middle Ages*.

⁴ *Op. cit.*, p. 14.

of England with, roughly speaking, its 10,000 parishes, nearly 4000 Enclosure Acts were passed between 1760 and 1844, the object of these acts being expressly to get rid of the old common unenclosed fields. But in spite of the Enclosure Acts, the old system has left many indelible traces on the surface of the land itself and the nature of the holdings, in the size and shape of the fields.¹

The open fields were originally divided into long-acre strips, a furlong (*i.e.*, a furrow-long) in length and four rods in width. Originally, these strips were separated by green *balks* of unploughed turf, and these balks can still be traced. A bundle of these long-acre strips a furlong in width made a "shot" (Anglo-Saxon), "quarentena" (Latin), "furlong" (old English), and these furlongs were divided by broader balks generally overgrown with bushes. The roads by which access was obtained to the strips usually lay along the side of the furlong and at the end of the strips, and these roads, often at right angles to one another, still survive. There are further traces on the land itself of the old "headlands" (Scotch head-rig), the "linches," "butts," "gored acres," and pieces of "no man's land."² Canon Taylor, in the paper cited above, gives some very remarkable examples of the effects of the same method of ploughing in these open fields, having been practised for many generations.

Not only on the surface of the land, however, but in the present distribution of the fields and closes constituting a farm, the effect of the common open fields may be traced. Taking any manor as a centre, we find the farms of which it is composed not consisting only of solid blocks, as in the newly-settled land of the United States, but of a number of little fields scattered about in the most admired disorder, and at a considerable distance from one another. Of the present inconvenience and want of economy in-

¹ Compare, also, Canon Taylor's paper in *Domesday Studies* on "Domesday Survivals."

² Seebohm, p. 6.

volved in the arrangement of farming land there can be no doubt from the modern agricultural standpoint, and if a *tabula rasa* could be made of the land, this is the last method of distribution which would be adopted. The inference is plain that this irregular, straggling, scattered ownership and occupation of the land must be a survival from a past custom, of which the inner meaning has been lost.

I proceed to note the principal features of the system at the time of the Conquest, and the processes and causes of its decay.¹

§ 5. *The Mediæval Village Community.* At the completion of the Conquest there were certainly manors everywhere, some belonging to the king, others to great barons and prelates, and others to the mesne tenants of these greater lords.² Some lords held many manors and were represented by a steward or reeve (*villicus*). The typical manor was a manorial lord's estate, with a village or township upon it, under his jurisdiction, and held in the peculiar system of serfdom known as villeinage.

Passing now to the internal economic constitution of one of these manors, and leaving the legal difficulties on one side, we observe that the arable land was divided into the lord's demesne and the land in villeinage. The whole of the arable land was in three great open fields, and the demesne land was interspersed with the villein's land. For the present purpose *liberi homines* may be omitted, and we may observe that there were three classes of tenants in villeinage, namely, *villani* (villeins proper), *cotarii* or *bordarii* (cottagers), and *servi* (slaves).³ The chief

¹ In this brief sketch I have followed, in the main, Mr. Seebohm, with indications of the principal points of divergence in other writers. I have also availed myself of my article on "Agricultural Communities," in Palgrave's *Dictionary*.

² Cf. Madox, *Exchequer*.

³ On the accurate meanings of the terms and their derivations, see Vinogradoff, Ch. V., Essay I.: "An investigation into the legal aspect of villeinage discloses three elements in its complex structure. Legal theory and political disabilities would fain make it all but slavery; the manorial

interest attaches to the villeins. The typical villein holding was a virgate or yard-land, and a virgate normally consisted of thirty acres, namely, ten of the long-acre strips in each of the three great open fields. It has been calculated¹ that about 5,000,000 acres were under the plough in the counties named in the survey, about half being held by the villeins.

The normal virgate was an indivisible bundle of strips of land passing with the homestead by re-grant from the lord to a single successor. There were also rights to use of meadow and waste. The virgates with their homesteads were sometimes called for generations by the family name of the holder. The central idea of the system was to keep up the services of various kinds due to the lord of the manor, and the virgate was a typical family holding. The services consisted of so much week-work, generally three days, an uncertain quantity of boon-work (*ad precem*, precarious), at the will of the lord, and certain payments, occasionally of money, but more frequently in kind. There were also restrictions upon the personal freedom of the villeins, *e.g.*, the lord's license must be obtained on the marriage of a daughter, or the sale of an ox, etc., and no one could leave the land without the lord's assent.

The normal outfit of the villein was a pair of oxen, and the ploughing was usually done with a team of eight oxen. Thus, even so far as the beasts were concerned, the co-operation of at least four villeins was required. We find, also, that certain craftsmen held their virgates in virtue of their services to the village, and the principal wants of the community were satisfied by its own labour. Everywhere and in everything custom was in force limiting the nature and amount of the services, and prescribing the times and methods of cultivation. The principal differences between the English village community at the Conquest and at the

system ensures it something of the character of the Roman *colonatus*; there is a stock of freedom in it which speaks of Saxon tradition."

¹ Seebohm, p. 102.

time of the Black Death (A.D. 1349), are found to be in the gradual break-up of these overpowering customs, and the increasing scope given to individual enterprise and variety. The nature of the movement is shown by the increasing irregularity of the holdings, and the departure from the normal type, by the progressive limitation of the services demanded, and, above all, by the substitution of money payments for these services and payments, in kind. This commutation in the mode of rendering tribute to the land-owner was the most potent cause of economic progress in the mediæval period.¹ By the time of the Black Death the option, at any rate of money payments, had become usual. The land-owner found his advantage in the greater efficiency of hired labour, and the villein had the power of benefiting himself by exceptional industry.

For a long time, however, the customary methods of cultivation prevailed, and, as pointed out above, the open fields remained down to the close of the last century. The principal point to observe is that, starting with the Conquest, economic and agricultural improvement has been closely connected with the disintegration of the village community. The nature of this movement is, however, often overlooked, because a comparison is made at different times between different parts of the social scale, the modern farm labourer being compared to the villein with the virgate, to the apparent disadvantage of the former, in spite of serfdom. But the true counterpart of the modern labourer is the mediæval slave, and the villein corresponds to the modern small farmer or land-owner.

§ 6. *Origin of English Village Communities.* When we go back beyond the Conquest we find strong evidence of the prevalence in the eastern districts of Britain of these village communities in serfdom under manorial lords, though the points of similarity are at first disguised by the

¹ Cf. Vinogradoff, *Essay I.*, Ch. VI.; Thorold Rogers' *Six Centuries*, Ch. VIII.; Cunningham's *Growth of Industry*, Vol. I., Bk. II. See also *infra*, next chapter.

difference of language. There seems, however, little doubt that, whatever may have happened at the time of the Saxon invasion, and in the dark period which followed after the departure of the Romans, as soon as the Saxons were settled they developed (or adapted) the essential economic features of the manor.¹ It is at this point that the principal controversy arises. The older view, generally associated with the name of Von Maurer, was that the Saxons imported into this island the fully developed *mark* system. The members of the *mark* were freemen, and in their assemblies decided on points of interest to the community. The arable land was divided, and the portions of meadow were allotted by popular vote. According to this view the village community in historical Saxon times had degenerated from this original type, the overlordship of a single individual having taken the place of the free assembly of equals. Against this view, however, Mr. Seebohm has made out a very strong case. His principal points are that the Saxons in their own homes do not appear to have cultivated land on the three-field system; that as soon as historical evidence is available we find the closest analogies between the agricultural systems in Saxon-England and that in the Romano-Teutonic portion of southern Germany; that there is no sufficient time allowed for the full development, independently, of the manorial from the *mark* system, and that there is no reason to suppose that the Saxons exterminated the inhabitants and treated the land as if it were virgin forest.²

The conclusion is, that, to a great extent, the Saxons simply adopted the system which they found already established by the Romans, during their four centuries of occupation. This opinion is supported by the close analogy between the conditions of tenure of the Romano-British *colonus* and the later *villani*.³ Thus the Roman

¹ Cf. the *Laws of Ine*, quoted by Mr. Seebohm, p. 142.

² Cf. Coote's *Romans in Britain*.

³ Seebohm, p. 267.

villa is made to contribute some of the most important elements of the late English village. But now the question arises: Whence were the elements of the Roman system in Britain derived? Did the Romans themselves import their own agricultural customs and impose them upon the inhabitants, or did they adapt what they found to their own use? It is known from other sources that the most usual course of the Romans in their policy of *parcere subjectis* was to amalgamate, as far as possible, foreign customs with their own. It is known, also, from historical evidence, that before the Roman invasion, in many parts of Britain there was a settled system of agriculture, notably in the south-east, and it would be in accordance with their usual practice for the Romans to take what they found as the basis of their own methods of cultivation and of extracting revenue from the people. We are thus thrown still further back, in order to discover the elements of this system, which existed in Britain before the Roman invasion, and in the search we discover, following the lines of Mr. Seeböhm's investigation, that through the whole period, from pre-Roman to modern times, there were two parallel systems of rural economy, the essential features of which were preserved in spite of the Roman, English, and Norman invasions, namely, the *village* community in the east, and the *tribal* community in the west, of the island. Neither system was introduced into Britain during a historical period of more than 2000 years. The *village* community of the east was connected with a settled system of agriculture; the equality and uniformity of the holdings were signs of serfdom, and this serfdom again had itself arisen from a lower stage of slavery. The *mark*, with its equal freemen, so far as this part of Britain is concerned, is thus an untenable hypothesis. We have equality and community, it is true, but they are based not on freedom, but on organised serfdom. On the other hand, the tribal system, which prevailed in the west of Britain (especially Scotland and Wales), and also in

Ireland, was connected with an earlier stage of economic development, mainly of a pastoral kind. The tribal community was bound together by the strong ties of blood-relationship between free tribesmen. This free equality involved an equal division amongst the tribesmen, according to various tribal rules, and the custom of subdivision has survived to our own day in the "run-dale" or "run-rig" system of the west of Scotland and Ireland. In this brief summary many interesting points have been omitted, and many certainly require further investigation. The origin of the size and shape of the long-acre strips, the original object of the irregular scattering, and the way in which the system became solidified in such an inconvenient form for modern requirements, can only be alluded to. Perhaps the most remarkable general result is that co-operation, which we are accustomed to regard as a purely modern product, is very ancient; but whether this co-operation arose, unlike most other ancient institutions, purely from rational elements and from motives of economy and convenience, has not yet been the subject of sufficient investigation. Certainly, hitherto the principal danger in reconstructing primitive societies has been to import too readily modern ideas, and not to allow sufficiently for what we should now call irrational elements.

§ 7. *Summary of Results.* The survey of village communities brings into prominence certain general features which seem to be beyond the reach of controversy: (1) Whether in their origin they were in the main free or servile, whether the original type is the manor or the mark,—and it is probable that under different conditions different elements were predominant,—in the course of time they readily lent themselves to some form of external domination. Thus, in Russia and in India the collectors of taxes from the communes gradually assumed the rights of overlordship; and in England, if the village communities were ever free, it was at a very remote period, and they were absorbed in the feudal manors. (2) It is

only in the non-progressive nations that they have survived. In England, in particular, the course of development has been marked by the disintegration of the various customs which had their origin in ownership and cultivation in common. (3) Thus, the system of private property and freedom of contract, as regards land, stands out as the natural result of economic evolution.¹

It will appear in the next chapter that the examination of feudalism, already to some extent anticipated, leads to a similar conclusion.

¹ The reader may consult, for the latest results, the careful work of Dr. Andrews on the *Old English Manor*. Mr. Garnier's *History of the English Landed Interest* shows an unusual combination of historical reading and practical knowledge.

CHAPTER VII.

FEUDALISM.

§ 1. *On the Economic, as distinguished from other, Aspects of Feudalism.* As the system on which the whole structure of mediæval society rested, feudalism is of fundamental importance in constitutional history as determining the form of government and the relations of governors and governed. It is of great importance also in general history, for the wars and policy of the state were often determined by feudal considerations. In the history of law the feudal system is for a long period predominant, and there are many technicalities in existing laws which cannot be understood without going back to their roots in feudalism.

For the present purpose, however, we have only to consider the system in its economic bearings; that is to say, as involving a peculiar organisation in the production and distribution of wealth. An examination of feudalism from this point of view is instructive in two respects: first, because it offers a striking contrast to the present industrial system, and secondly, because it broke down mainly under the pressure of the economic forces which have gradually become dominant in progressive nations.

The close connection with the subject of this book may be illustrated by reference to the origin of the term. The word *feudum*, fief, or fee, is derived from the German word for cattle,¹ the secondary meaning being goods, especially money and house property in general.²

¹ *Vieh*, — Anglo-Saxon *feoh*.

² Stubbs' *Constitutional History*, Vol. I., p. 251, note.

§ 2. *Principal Characteristics of Feudalism.*¹ In its essence the feudal system was a great military organisation. The typical feudal state was a nation ready to take arms. The king was like the commander-in-chief; his immediate feudal tenants were generals, each of whom not only commanded but equipped his contingent. These contingents again were made up by the contribution of lesser tenants, of whom some were bound to take the field with a certain number of men and horses, some only to serve in person. This part of the system was antecedent to feudalism, and was almost universal in early societies. But the peculiarity of the feudal system was that the type of military organisation was fixed and solidified by being made territorial. Land, as the ultimate source of wealth, and at that time almost the only direct one, was regarded by the state according to its capacity for supporting the defence of the nation. Hence, military service in some form—either personal, or definite provision for it—was the essence and condition of the landholder's title. According to this view, the feudal tenant is best regarded as an officer settled upon land, rather than as the owner of land; that is to say, we shall find the conception of military obligation taking the place at present held by contract.²

This mode of regarding the feudal system, in which I have followed Sir F. Pollock, must be considered as intended to bring into prominence certain typical features and structural arrangements. It must not be supposed that the feudal system was ever actually established on the simple lines here laid down. Historically, it had a complex origin, and from the first it was modified, in different countries, by various social forces. A few points may be noticed bearing upon the history of feudalism in England.

Under the Anglo-Saxons the general character of the

¹ Pollock's *Land Laws*, p. 52, and Stubbs, Vol. I., Ch. IX.

² Cunningham's *Growth of Industry*, Vol. I., p. 130.

development has been described by Stubbs¹ as a movement from the personal to the territorial organisation; in the former the free man of pure blood has a right to share in the land of his race, the king is king of the race, the host is the people in arms, the courts are the people in council; in the latter stage of development possession of land usurps the place of freedom of blood, although remnants of the old influences are still left.

The country, at the Conquest, was thus well fitted for the imposition of the feudalism which the Norman brought "full grown from France." This institution was derived from two great sources, technically known as the *beneficium* and *commendation*. The beneficiary system arose partly from gifts of land by the kings to their kinsmen and retainers under the condition of fidelity, and partly from the surrender by land-owners of their estates to churches or powerful men to be received back and held by them as tenants for rent and service. By the practice of commendation the inferior put himself under the personal care of a superior lord, but without altering his title to his estate; he became a vassal and did homage by placing his hands between those of his lord. The union of the land tenure of the former element — the *beneficium* — with the personal connexion of the latter — *commendation* — completed the idea of feudal obligation. The rights of defence and service were supplemented by the right of jurisdiction; the lord judged as well as defended his vassal, and the vassal did suit as well as service to his lord.

It is evident from the general principles of feudalism that the great danger is the weakness of the central authority, or, in other words, the tendency of the feudal lords to become practically independent of the king. In England the reign of Stephen furnishes a striking example of the reality of this danger, and shows how much the personal character of the monarch affected the whole national

¹ Vol. I., p. 166.

well-being.¹ On the other hand, England is also the best example of the subjugation of the disruptive tendencies of feudalism by a combination of the forces of royal authority and popular love of freedom.

It seemed advisable to make this very brief survey from the historical and political standpoint, in order that the effects of the more purely economic elements might be more clearly appreciated. Under the feudal system we have as foundations a peculiar land system and a peculiar form of personal obligation. In neither was the idea of economic advantage predominant, as such advantage is understood in the present time. In its ideal form the personal tie was that of devoted attachment, as shown in the poetry of chivalry; and, similarly regarded, the land system rested upon military obedience.

§ 3. *Peculiar Restrictions on the Ownership of Land under Feudalism.* It follows at once that some of the most important characteristics of ownership of land in the modern industrial system were opposed to the general principles of feudalism, and were logically inadmissible. Take, for example, freedom of alienation or the right to sell an estate. Under strict feudalism there was no room for it. The tenant, by military service, as Sir F. Pollock observes, was no more entitled to put a newcomer in his place than a soldier on duty to assign his place to another. It is true that feudalism of this strict type soon began to decay, or rather, the ideal was never completely attained; but for the present we are concerned with principles, and it is sufficient to notice that in England at the present day many of the difficulties in the transfer of land may be traced to this characteristic of feudalism.

Again, freedom of disposal by will was still more repugnant to the feudal theory. Logically the land should revert to the king or other superior for the appointment of a new officer, to follow the original analogy.

¹ The influence of the personal element has been justly emphasised by Dr. Cunningham, *Growth of Industry*, Vol. I., p. 130.

In the same way the right of inheritance falls to the ground, if feudalism is regarded from the purely military standpoint. But historically feudalism was not only, as already shown, of mixed origin, but it was modified by other institutions, and notably by that of the family. In the ancient types of the family, whilst there was no room for alienation or bequest, the right of inheritance was fundamental, although different modes were adopted in various circumstances. The rule that came to be general under feudalism was that of primogeniture. The origin is obscure,¹ but once it was adopted there are obvious reasons why it should become general and stringent. To divide a great feudal estate would be like dividing the command of an army corps, and when division did not take place it was natural that the eldest son should take the command, as being in most cases the strongest.

So strongly did the law of primogeniture take root in England that it was applied in time to estates in land unconnected with military tenures,² and in case of intestacy it still prevails in England as regards all real property.

It has been observed by Thorold Rogers³ that, during the early Middle Ages the effects of primogeniture on land were modified by the custom which prevailed, of the great land-owners cultivating their own estates at their own risk. On ordinary arable land, in the thirteenth century, he states that stock was three times the value of the land, when there were adequate implements and cattle (the proportions being 6s. to 8s. per acre for the land, and 18s. to 20s. for the capital).

Now the younger sons shared, unless deprived by will, in this personal estate, and to keep the estate in working

¹ Cf. Maine's *Ancient Law*.

² Copy-holds and socage land, for example. In these cases the adoption was only gradual. In Kent, to this day, *gavel-kind* (equal division) prevails. Cf. Elton's *Origins*. Cf. Pollock's *Land Laws*, Note D.

³ *Six Centuries*, p. 51.

order the eldest son would be obliged to make some agreement with the younger, — probably at first by sub-infeudation.

To return to the general question of feudal inheritance, it must be added that the right only existed when there was mention of heirs in the original grant, and in any case the heir did not succeed as a matter of free and common right, but he owed the lord a payment called relief. Here again we have survivals at the present day.¹

One other technicality which had important consequences must be noticed. In general, in a grant in which heirs were mentioned, some particular kind (*e.g.*, heirs male of his body) was prescribed, and in case of failure the estate reverted to the superior. It is to this practice that we are mainly indebted for entails.

§ 4. *Feudalism and the Towns and Cities.* The feudal system laid its hand on the town no less firmly than on the country, although it was sooner compelled to relax its grip. As in the preceding section, for the purpose of illustration, reference may be made to England.

It is only with an effort we can picture the economic condition of the towns in England in the early mediæval period. At the present day, any one can settle in any town he pleases, establish any manufacture, practise any industry, buy or sell anything that he likes. In the Middle Ages it was not so; towns in the same country were relatively more exclusive than independent countries are at present. This mutual exclusiveness was closely connected with feudalism, and to the same source must be attributed many of the burdens and restrictions which were only completely destroyed after the struggle of centuries.²

From the time of the Norman Conquest the cities and towns of England were vested either in the crown or else in the clergy or in the baronage, and great men of the

¹ Compare, for example, the system of feuing land in Scotland for building purposes.

² Compare Adam Smith, Bk. III., Ch. III.

laity¹; that is to say, the king was immediate lord of some towns, and particular persons, either of the clergy or laity, were immediate lords of other towns. Of those vested in the king some were by one title and some by another; some he held as the ancient inheritance of the crown, others had lapsed to him by escheat (for want of heirs), some he had obtained by forfeiture, by attainder, by exchange, and by the dissolution of religious houses. The test of ancient inheritance was a reference to Domesday, and the difference was of importance with regard to the exaction of dues.

A very great number of towns and cities were, at the time of the survey, vested in the crown,² and when a king spoke of his towns it was no mere political reference, — he regarded them as sources of revenue equally with his great landed estates. The following passages from Madox³ give a graphic description of the meaning of the king's overlordship. "When the king was seised of a particular city or town in demesne, he had a complete seisin of it with all its parts and adjuncts. He was lord of the soil, to wit, of all the land within the site and precincts of the town; of all the burgage houses, sheds, stalls, and buildings erected on the said land; he was lord and proprietor of the profits (if any) of aldermanries; the herbage and productions of the earth, profits of fairs and markets; pleas and perquisites of courts; in a word, of all issues, profits, and appurtenances of the city or town of any kind which had not been aliened by the king or some of his ancestors. But sometimes the crown thought fit to grant some part of a city or town, or some profit or appurtenant thereof to a private man or to a religious house. By which means it sometimes came to pass that the property of a city or town was divided into a half or third, or other part or parts, or perhaps certain of the profits of the city or town became severed from the *corpus civitatis*."⁴

¹ Madox, *Firma Burgi*, p. 4. Cunningham, Vol. I., p. 197.

² Cf. Madox, p. 7.

³ *Ibid.*, p. 14.

⁴ It is hardly necessary to observe that the object of the above quota-

It is to be understood, however, as the same writer expresses it, that in former times the kings were not wont to reserve to themselves a rent or ferme out of an airy or barren franchise. The yearly proceeds arose out of certain definite rents and profits, and it was only if these fell short that a general collection was made. The revenues of the towns included, besides these rents, stallage (rent stalls in markets) and other market dues, tolls, fines, forfeitures of criminals and other transgressors, and various casualties.

The natural correlative of the manorial overlordship of the towns was the communal responsibility of their inhabitants. This is shown not only in the payment of regular or customary dues, but is still more noticeable in exceptional exactions. Thus, a corporate community might be answerable for the trespass or debt of particular persons, members of it, and particular members answerable for the debt or wrong-doing of the whole community.¹ Thus, as late as A.D. 1305, Edward I. entrusted a French hostage to the men of Winchester to keep, but they let him escape. Thereupon, the king commanded the mayor and bailiffs, together with six of the more discreet and substantial citizens, to appear for the community before his council, and they were imprisoned.²

Again, particular persons were, for several centuries, charged to the king with a debt due to him from their corporate community. A common example is when towns are charged with having acquired the property of a felon or other persons forfeited to the king, in which case the king seems to have taken any citizen on whom he could conveniently lay hands.

On the other hand, it must be observed, that this communal responsibility was associated with a certain measure

tion is to give prominence to the feudal elements in the constitution of mediæval towns. There were, from very early times, important modifications due to other influences. Cf. Stubbs, Vol. I., Ch. XI.

¹ Madox, p. 154.

² *Ibid.*, p. 156.

of self-government, and, under the Norman kings, we find several instances of towns being fined for setting up a commune without warrant, which proves that this rudimentary combination was regarded as a privilege.

The kings, however, soon found it to their interest to make alliance with the towns against the barons; and the charters became more and more favourable.¹

§ 5. *Economic Causes of the Decay of Feudalism* —
(a) *the Increase of Security*. Just as feudalism was of mixed origin, so it was broken down by a variety of influences, — constitutional, legal, and religious, as well as those more properly styled economic. These last, however, were of primary importance, and, as far as possible, they will be considered apart from the other factors. Although it is clear, from the very nature of the feudal system, that we cannot expect any complete isolation of the economic phenomena, still, as Adam Smith² has shown in treating the same problem, the other influences may themselves be regarded from the economic standpoint. The point is well illustrated by the first of the great forces which tended to break up feudalism, namely, the increase in security. Here, the importance of the constitutional and legal aspects cannot be overlooked. In England, for example, the first blow to strict feudalism was given by William I., at the great council of Salisbury, A.D. 1086, at which all holders of land swore allegiance to the king. This event, which used to be regarded as the formal establishment of feudalism, really marked the beginning of its downfall. "It is," according to Stubbs, "a measure of precaution taken against the disintegrating power of feudalism, providing a direct tie between the sovereign and all freeholders, which no inferior relation existing between them and the mesne lords would justify them in breaking."³ It thus prepared the way for a system of law and justice applicable to the whole country.

¹ Madox, p. 242.

² Adam Smith, Bk. III., Ch. III.

³ Cf. Stubbs, Vol. I., Ch. IX., p. 266.

The mere exaction, however, of an oath of allegiance would, in itself, have been of little consequence, unless supported by more substantial guarantees. In its idéal form of a great military organisation, feudalism already exacted perfect obedience and fidelity to the central authority, although, in all but the highest ranks, the mode of expression was indirect. But, as Adam Smith¹ observes, the authority of government, under feudalism, was too weak in the head, and too strong in the inferior members, and the excessive strength of the inferior members was the cause of the weakness of the head. Feudalism, with its regular train of subordination, from the king to the lowest retainer, ought to have strengthened the authority of the king and weakened that of the great proprietors; but it could not do either sufficiently for establishing order and good government among the inhabitants of the country, because it could not alter sufficiently that state of property and manners from which the disorders arose.

William I., however, and his strongest successors succeeded in keeping in check the disruptive tendencies, and to some extent, at any rate, in performing the first function of government from the economic standpoint; they did something, namely, towards providing a fair field for the play of economic forces; they led the way, no doubt unconsciously, and actuated by other motives, to the substitution of an industrial for a military organisation. The alliance of the kings with the towns and cities was of equal importance with the direct suppression of the powers of the great barons, in the establishment of that degree of security which is necessary for the development of trade and commerce.² "Order and good government, and along with them the liberty and security of individuals, were, in this manner, established in cities at a time when the occupiers of land in the country were exposed to every sort of violence."³ In other countries, especially Italy and

¹ Bk. III., Ch. IV.

² Cf. Cunningham.

³ Adam Smith, p. 179.

Switzerland, the cities gradually became independent republics, conquered all the nobility in their neighbourhood, obliged them to pull down their castles and live like other peaceable inhabitants in the city. This is the short history, says Adam Smith, of the republic of Berne, as well as of several other cities in Switzerland, and it is also the history of most of all the considerable Italian republics (except Venice) between the end of the twelfth and the beginning of the sixteenth centuries.

If it is remembered that the essence of feudalism was a military organisation, subject to chronic mutiny on the part of the superior officers, and consequent relapses into anarchy and plunder, it is plain that the decay of the system may be measured by the growth of industrial security. Laws and governments no doubt did something to provide room for this growth, but the vital powers and nourishment were derived from economic agencies operating silently and insensibly below the surface.

§ 6. *The Decay of Feudalism — (b) Extension of Money Payments.* The chief agency in the progress of society from status to contract has undoubtedly been the extended use of money, the substitution of money payments for various kinds of services and obligations.

Without money, exchange cannot be the fundamental principle in the distribution of wealth; distribution must necessarily be dominated by different forms of authority. We are now accustomed to speak of the rigidity of early laws and customs; it is time we recognised that the principal loosener of this rigidity is money. The history of money might be made the guiding thread to the history of civilisation; money has destroyed, or helped to destroy, the privileges founded on birth, superstition, and force; money has promoted, or helped to promote, freedom of labour, reward in proportion to services, and equality of sacrifice in taxation, — the three great principles in which ethics comes into closest contact with economics. The clamour of the socialists for the abolition of money is a curious illus-

tration of the way in which incidental evils turn the attention from the essential benefits of any institution. There never yet was power for good which might not in some respects be turned into a power for evil. The intention of these reflections is illustrated and justified by the effects of money on feudalism; here, at any rate, the advantages altogether outweighed the disadvantages.

Under strict feudalism, personal military service was exacted, — service of so many days, irrespective of the time employed in getting to and returning from the seat of war. The possessions of the English kings abroad rendered this personal service very burdensome. Hence a commutation into money payments was desired and achieved. This was known as *scutage*.¹ It enabled the English monarch to maintain a force of picked and trained volunteers, and thus strengthened the central authority. The abuse of this power by John was one of the causes of Magna Charta,² and indirectly of the power of Parliament over the public purse, for it soon became evident that the king must not be allowed to claim scutage as he pleased, on pretence of a continental war. Another important effect is pointed out by Rogers.³ None but freeholders (that is to say, those who did not hold their land only by villein services) could serve in the national militia, but servile birth was no obstacle to enlistment in the king's army, and by this path a serf might even rise to knighthood.

Scutage applied strictly only to those feudal tenants who held immediately (*in capite*) of the king, but they transferred it to their sub-tenants. "The tenants," says Madox,⁴ "paid escuage to their lord to enable him to pay his escuage to the king," and thus the effect was more general than might at first sight appear. The substitution

¹ Cf. Madox, *Exchequer* (Ch. XVI.), for full account. The term is derived from a knight's shield (*scutum*). It first appears in the time of Henry II., and is ascribed to Thomas à Becket, A.D. 1159. See Rogers' *Six Centuries*, p. 29. Stubbs, Vol. I., pp. 454, 456.

² Stubbs, Vol. I., p. 533.

³ *Op. cit.*, p. 32.

⁴ Madox, *Exchequer*, p. 469.

of money payments for produce rents of various kinds was far more wide-reaching in its influences, and the process has lasted down to our own times. In England this species of commutation seems to have begun on the royal demesne soon after the Conquest. A graphic description is given in the *Dialogue on the Exchequer*¹ of the inconveniences of payment in kind, especially when the king was engaged in foreign wars, and also of the burdens imposed on those engaged in agriculture by these exactions. As with scutage, the substitution of money payments was desired on both sides.

The importance of the adoption of a money economy is still better shown by the changes that occurred in the lowest strata of the feudal system, in those parts, namely, in which feudalism had been imposed on the agricultural régime derived from the village communities.² At first we have a system of labour rents. The villeins held their land on condition *inter alia* of performing so much work for the lord on his demesne, and of rendering other services and payments in kind. Although the personal freedom of the villein was much restricted, as he was subject to the arbitrary power of his lord in many ways, his services and payments in the nature of rent were fixed and customary. Gradually these customary dues became more favourable, but the most favourable change of all was the commutation into money payments. This was effected in England by the silent operation of economic causes. The land-owners and their bailiffs found that forced labour was inefficient and not readily adjusted to the needs of various times and places. In some cases the land-owners required more, in others less, than the customary amounts, but the one thing they always were in want of was money. From the point of view of the villein, the

¹ Stubbs' *Select Charters*, p. 193. Some of the rates of commutation are interesting; e.g., bread for 100 men, one shilling; an ox, one shilling; a sheep, 4d.

² Cf. Ch. VI.

change to money payments was equally desirable. The abolition of forced labour gave opportunities for earning wages and thus for saving; and, side by side with the process of commutation, we find increasing irregularity in the size of the holdings. The process was facilitated, and the beneficial effects were increased, through the practice of freeholders acquiring servile lands. The rates of commutation were moderate and, like the customs which they displaced, fixed. Thus the first step was taken towards the creation of peasant proprietors.

The occurrence of the Black Death (A.D. 1349) almost completed the act of emancipation. It intensified both in violence and rapidity the movement already in progress. Too late the land-owners discovered that they had sold their birthright below its value. In vain they tried to exact the old forced labour; the crops were rotting on the ground, and the villein would be welcomed wherever he chose to wander. In the end the scarcity of labour and its high price rendered landlord cultivation by bailiff supervision unprofitable; and, to a great extent, the demesne itself became merged in the peasant land. The method of transition was by the land and stock lease which has been so fully and admirably described by Rogers.¹ The landlords let both land and stock on lease to the tenant. In principle, the system was a species of *metairie*, but it differed in important details. It was looked on as a temporary expedient; the rents were fixed for short periods and open to periodical adjustment; and the stock was valued to the tenant and restored by him on the termination of his lease. The system lasted on the average about seventy years; at the end of that time the tenants had become either yeomen practically independent, or farmers with their own capital. Thus, in England economic forces effected a social revolution in the fourteenth century, which in Germany and Russia has

¹ *Six Centuries*, p. 229.

only found its counterpart in the nineteenth century by the direct intervention of the state.¹

The decay of the feudal power in the towns of England, and the growth of freedom and self-government, is intimately connected with a peculiar system of payments. At first, the yearly profits which the king made of his towns were raised and paid in different ways; sometimes they were levied by the sheriff of the county; sometimes the towns were farmed out to particular persons; and, in process of time, the farm (or ferme) was let to the townsmen themselves either for a term of years or in perpetuity.² It may be observed that in the mediæval period there was a constant tendency for payments which were, in their origin, proportional or variable to become fixed.³ In this way, the kings and other superiors lost, in general, their share in the growing wealth of the towns. The fee-farm of the town or city signified a perpetual rent,⁴ and the townsmen, after a time, generally obtained the farm in fee. The fixation of the payment, as Adam Smith observes, naturally also made the corresponding privileges perpetual,

¹ Compare *Systems of Land Tenure* (Cobden Club) — "Germany and Russia." To prevent misunderstanding, I may repeat that I do not intend to imply that this social revolution was entirely due to the economic forces described; it is enough for the present purpose to say that, without their influence, it would have been impossible. The part played by Wiclif's poor priests, in the peasant revolt of 1381, shows that ideas of equality derived from primitive Christianity were fermenting in the minds of the people; and, on the other hand, there had been, on the legal side, a gradual development of personal freedom, as shown, for example, by Magna Charta.

Some years ago I ventured to advocate some form of land and stock lease, as a solution of the crofter difficulty in Scotland. I was assured, however, by the best practical authorities, that the scheme was impracticable. It is noteworthy, however, that *metairie* is spreading in France.

² Madox, *Firma Burgi*. Adam Smith, Bk. III., Ch. III.

³ The tenth and fifteenth, in taxation, form a good example. Cf. Dowell.

⁴ "Fee is derived from *feodum*, and was applied by usage, in England, to a perpetual estate or inheritance in land; it was also applied to heritable offices, called offices in fee." — MADOX.

and these privileges were constantly increased, in return for additional payments, which again became fixed. It is hardly necessary to point out that, although the kings sacrificed, as events showed, a great revenue which might afterwards have been used for the general purposes of the state, the gain to the country as a whole far more than counterbalanced this loss. The *firma burgi* was essential to the progress of the towns, and the progress of the towns was essential to the improvement of the country.¹

§ 7. *The Decay of Feudalism — (c) Changes in Land Laws.* The substitution of money payments for all sorts of dues and services prepared the way for freedom of alienation of land; and, side by side, freedom of bequest struggles to the front. The family instinct of the nobility, however, prompted them to endeavour to establish a strict system of entails,² but the attempt was defeated by a variety of legal fictions, which gave expression to the common sense of the community and especially to the interests of the church.³ The nobles, on the other hand, whilst striving to hold fast their land, were equally anxious to escape from the obligations incidental to feudal tenures. They endeavoured to make ownership merely nominal for obligation; to make the dues as small as possible, and, above all, to avoid forfeiture. This led to the system of uses or trusts, which again involved secrecy of transfer. The invention is ascribed to the church, but the instruction was bettered by the nobles, and gradually became the rule. Accordingly, although the victory of economic ideas was complete in principles, it was far from complete in methods; it was only achieved by the use of cumbrous legal devices, the evil effects of which still remain. It is

¹ Adam Smith, Bk. III., Ch. IV.

² Cf. *Statute de Donis*, A.D. 1285.

³ The sixteenth and seventeenth centuries in England were years of almost complete freedom of alienation; but later on the beneficial mediæval legal devices were, to a great extent, defeated by other inventions for keeping the land in the family. Cf. Scrutton, *Land in Fetters*, Ch. VIII.; Brodrick, *English Land and English Landlords*, Ch. III.

impossible, with due regard to the scope of the present work, to do more than indicate, in this very brief manner, some of the salient points in the legal development and degeneration of feudalism.¹

¹ The works of Sir F. Pollock and Mr. Scrutton, cited above, give an excellent survey, intelligible to the lay reader, of the principal stages in the progress and decay of feudalism. They are written from the legal standpoint, but with a due appreciation of economic influences. See also Garnier's *History of the English Landed Interest*. Professor Ashley's *Economic History*, Vol. II., appeared after this work was in the press. His criticism of Rogers deserves careful consideration.

CHAPTER VIII.

MODERN OWNERSHIP OF LAND AND INDUSTRIAL FREEDOM.

§ 1. *Outline of the Argument.* In the last two chapters I have examined two great systems of land tenure, which, in some form or other, seem to have prevailed almost universally. In this chapter and the next I propose to indicate the economic effects of the survivals of these systems, the principles of legislation affecting land that arise with the development of industrial freedom, and some of the recent modifications of those principles. Briefly stated, my object is to examine the economic effects of certain kinds of land laws which are of importance at the present time. I shall first consider laws relating to the ownership of land in the modern sense, and secondly,¹ those relating to landlord and tenant.

§ 2. *On Difficulties in the Transfer of Land.* One of the principal results of the survivals of old laws and customs is that land cannot be bought and sold so readily as other forms of property. Great advances have recently been made both in England and Scotland, but the fact still remains, that the transfer of land falls short of that simplicity which is assumed as fundamental under the system of industrial freedom. It would be impossible to indicate in the compass of this work the nature of the technical legal difficulties; all that I propose to do is to examine the effects of such difficulties in the way of sale or transfer.

¹ See next chapter.

1st. In the first place there is a waste in unnecessary legal expenses, *e.g.*, in ascertaining the nature of the title. It is to be observed, however, that from the nature of the case, land can never be so easily transferred as some other forms of property, *e.g.*, consols, or other stocks and shares. "Stock," it has been well said, "possesses no boundaries, conceals no minerals, supports no game, pays no tithes, admits of no easements, is let to no tenant, and is hampered by no adjoining owners."¹ The expense also, at any rate in Scotland, where a system of registration of deeds prevails, is not now so great as is generally supposed. According to the calculations of Mr. Auldjo Jamieson,² who has had a very wide experience, the average expenses in the case of large estates is about equal to that of transferring railway stock, and the stamps required by law amount to a little more than half of the legal expenses.

The expenses, however, are not proportioned to the value of the estate, being proportionately much heavier in the case of small properties. Accordingly, so far a special check is imposed on the transfer of land in small quantities. But for the reasons already given, it is doubtful if the abolition of all expenses connected with the transfer of land would, in Great Britain, lead to a system of peasant proprietors.

2d. "Simplicity and facility," as Mr. Jamieson observes, "are as valuable as cheapness,"³ and the law's delay is often of greater consequence than the law's costs. Again, any uncertainty or difficulty in ascertaining the title renders it difficult to borrow on mortgage; and, on the other hand, encumbrances of various kinds, especially when effected with more or less secrecy, also tend to make transfer difficult. The consequence is that land does not find its way into the hands of those best able to make use of it. One of the worst abuses connected with

¹ *Land Law Reform in England*, p. 10, by Osborne Morgan.

² *Transactions of the Chartered Accountants Students' Society of Edinburgh*, Vol. I., Ch. I.

³ *Ibid.*, p. 16.

land is that, in many cases, the nominal is not the real owner. It is worth observing, that the economic functions of settlements in land are not nearly so important as they once were. The rent of land, as recent experience has shown, is by no means the most certain form of income. It is a curious popular fallacy to suppose that land is, in some way, particularly safe because it is always there; it is forgotten that land which yields no rent is of as little value as the air above it, which also technically is assumed to be part of the property.

3d. The idea of keeping land in a particular family is, under modern conditions, essentially anti-economic. It is true that the popular notion that land can be now strictly entailed in England and Scotland, for an indefinite period, is fortunately as erroneous as the idea that, by the law of primogeniture, land necessarily goes to the eldest son, just as in France it is compulsorily divided. Both entail and primogeniture, as at present practised, gain most of their force not from law but from custom, but the custom has deep roots in history and sentiment. It is worth recalling the evils that ensued when entails were comparatively strict; they have been summarised in a famous passage by Blackstone. "Children grew disobedient, farmers were ousted from their leases, for if such leases had been valid, then, under colour of long leases, the issue might have been virtually disinherited; creditors were defrauded of their just debts, for heirs might have been defrauded by mortgaging; innumerable latent entails were produced to deprive purchasers of their land, hence law-suits were encouraged, and also treason, as estates-tail were not liable to forfeiture."

§ 3. *The Advantages of Large Estates.* It would, however, be a serious mistake to suppose that large family estates have no advantages.¹ Before assenting to the

¹ Some very interesting calculations on the distribution of landed property were made by Joseph Kay in his book, *Free Trade in Land*, Letter I., under date Dec. 15, 1877:—

popular condemnation, the following points ought to be considered. Ownership on a large scale does not involve, necessarily, cultivation on a large scale. The larger the estate, the less likely is the owner to cultivate it himself, and I venture to say that, economically, this is an advantage; mere ownership does not imply technical agricultural skill any more than the ownership of railway shares implies the capacity to drive an engine. In Great Britain there are more than half a million tenant-farmers, and they are the most skilful in the world; the Scottish farmers are said to be superior to the English, and in Scotland estates are larger.¹ The relations of landlord and tenant are generally better on large estates. The owner feels more responsibility; the estate is governed by general rules, and there is not so much room for caprice. A great land-owner, imbued with family traditions, is now in some respects like a constitutional monarch, just as in ancient times he was like a despot.² There is greater security

1. England and Wales, total area, 37 millions of acres. A body of men not exceeding 4500 own more than *half*. Less than 280 people own one-sixth of the *enclosed* land. Sixty-six people own one-eighteenth part. One man owns 186,397 acres (Kay, p. 14).

2. In Scotland the figures are still more striking. Total acreage about 19 millions. One owner has 1,326,000 acres, and 32,000 in England as well. There are five owners with more than 300,000 each. Twelve owners have a quarter of Scotland. Nine-tenths of the whole of Scotland belongs to fewer than 1700 people.

3. Ireland. Total area is 20 million acres. Two hundred and ninety-two people own one-third of the island. Seven hundred and forty-four people own one-half of the island. There are three people with more than 100,000 acres each.

The following summary is still more startling :—

Two-thirds of the whole of England and Wales owned by 10,207 persons.

Two-thirds of the whole of Scotland owned by 330 persons.

Two-thirds of the whole of Ireland owned by 1,942 persons.

For more recent figures, see Shaw Lefevre's *Agrarian Tenures*, p. 14.

¹ The exceptional skill of the Aberdeen farmers is, perhaps, to be attributed to the severity of the climate.

² Compare Adam Smith's description of Cameron of Lochiel, Bk. III., Ch. IV.

of tenure. In England, many farms have been held for generations in the same family as yearly tenancies. What is called a fair commercial rent, as will appear presently, depends on a complexity of causes, and is difficult to estimate. Hence, in one way, it is good that contracts for the hire of land should not be too rigidly interpreted; there should be something of the *uberrima fides* of partnership. Recently, for example, in Great Britain it has been found necessary to reduce rents, owing to an unprecedented fall in prices. The great land-owners have been much more ready and more liberal in their reductions. As a matter of fact, the rental of a moderate estate is a precarious source of income; and it is generally burdened with debt and dignity. The Scottish laird is neither a lord nor a yeoman, and the sooner his estates are absorbed or divided the better for the country. A small land-owner has little capital for permanent improvements, which in Great Britain are generally made by the landlord. The case of very small tenants, *e.g.*, crofters, is, of course, peculiar, but experience has shown that as a rule they are better off under large land-owners. The people who rack-rent most are the peasant owners abroad, *e.g.*, Flanders. The principal argument for small estates is founded on political and social stability, but it is of more importance in other countries, *e.g.*, France and Germany, than in Great Britain. This advantage is, moreover, seldom so great as might be supposed, owing to the pernicious and apparently inevitable custom of mortgaging small properties. In ancient Greece there were continual outcries against usury and appeals for *seisachtheia*,—a shaking off of burdens,—just as in Russia and Germany we have at present intense hatred of the Jews, which is based far more on their usury than on their race. The principal argument usually advanced against large estates is also political and social; the owners are supposed to have too much influence for a democracy. But of late both the political and the social power of large ownership have been largely

abated. It should be remembered also that in return for social powers there are certain social advantages. In Ireland, the greatest outcry was against the new commercial proprietors, who, after the act of 1860, bought land to make as large profit as possible. Again, under the system of large estates with family settlements of various kinds, far more are interested than the merely nominal owners. The landed interest in Great Britain is, perhaps, a more reliable basis of social stability than the peasant proprietary of the Continent.

§ 4. *Recent Modifications of the Economic Principles of Ownership of Land.* It is remarkable that in the United Kingdom, before the commercial system has been fully applied to land, that is to say, before the old survivals have been got rid of, new modifications on different principles have been adopted. The natural course of development had been to differentiate ownership from tenancy, and to substitute conventional for customary tenures of various kinds. These feudal obligations and common rights had been largely abolished, and the owners of land had acquired proportionately greater freedom. A good example is furnished by the agrarian legislature of Prussia during the present century. "It is marked by the demolition of the feudal edifice and the removal of the materials of which it was built."¹ Before the reforms, the peasants held the peasant-land by as good a title as the lord held the noble-land; the peasant paid no rent, in the ordinary sense, but he was forced to perform certain services. The essence of the reforms consisted in enabling the peasants to compound for their services by surrendering part of the peasant-land and holding the remainder free from feudal obligations. The popular idea that peasant proprietors were established by taking part of the land of the nobles, is exactly the reverse of the truth.²

"In every progressive society," it has been said, "the

¹ *Systems of Land Tenure* — "Prussia," by R. B. D. Morier.

² Morier, *op. cit.*, p. 382, note. Richey's *Irish Land Laws*, p. 5, note.

laws relative to the rights and duties of the owner and hirer of land tend to follow an invariable order of change; the parties are permitted to make their own bargains; land may be dealt with as any other commodity.”¹ When this order of change has been perfected, we may assume that the owner of land can do with the land as he pleases, and let it, if he likes, on any terms that conform to the ordinary rules of lawful contract. Recently, however, in the United Kingdom, of all places, before the old fetters have been altogether removed, new fetters have been imposed. In other words, a reversion has been made towards the ancient confusion of ownership and tenure, and part of the rights of the owner have been transferred to the tenant. Some account of the principles involved will be given in the next chapter.

¹ Richey, *op. cit.*, p. 8.

CHAPTER IX.

CONTRACTS FOR THE HIRE OF LAND.

§ 1. *Free Trade in the Hire of Land.* In his excellent work on the *Irish Land Laws*,¹ Dr. Richey, with the object apparently of illustrating his subject by the light of contrast, gives, by way of introduction, an account of the French law as laid down in the Code Napoleon.² The principles of this law were in the main those developed by the great Roman jurists, who were altogether free from feudal influences. Briefly described, the French law is "the most complete and equitable application of the rules of free trade to the case of the letting and hiring of land." According to this system, the same rules are applied to land as to any other commodity; the relative rights and obligations of landlord and tenant depend entirely on contract; any kind of agreement may be made, not showing signs of force or fraud or other flaw that would vitiate any contract; and it is only in so far as the agreement is silent that the law steps in to secure an equitable division in case of dispute. The same principles are applied with the utmost impartiality to landlord and tenant. It is certainly remarkable that in the country to which we are most often referred for examples of small cultivation, the principles of the law should be so strictly unbiassed. The subject may be considered with reference to three topics: rent, compensation for improvements, duration of tenancy.

§ 2. *Rent under the Free Trade System.* The same principle is applied as in the case of the sale of anything.

¹ *Irish Land Laws*, Chs. III.-V.

² Ch. V., p. 33.

The use of the land is considered as sold for a term of years, with payment by instalments. Now, in ordinary sales, the court would only interfere if the price seemed so ridiculously high (or low) as to imply misrepresentation on one side or the other. It is assumed, then, that the landlord must have covenanted that the annual produce should at any rate exceed the rent. Accordingly, if the crop fails he must share in the loss. In practice some rule is necessary, and liability to share in the loss only arises if the crop is less than half an average, and in cases of a term of years the tenant must show that, taking good years with bad, he has lost more than half the crop. Thus the law does not attempt to determine "fair" rents; it leaves abundant scope for enterprise and speculative bargains; it only steps in when the implied condition, namely, that the landlord lets a valuable subject (*possession utile*) is not fulfilled, the practical test being this rule of half the crop.¹

§ 3. *Fair or Judicial Rents.* In Ireland generally, and in Scotland partially, the law in recent years has been extended much farther, and in many quarters a still greater extension is demanded. Government has undertaken to fix fair rents for a term of years, not by the application of any broad principles, but by precise valuation in every particular case. It is interesting to notice the grounds upon which this remarkable inroad has been made into the "fair field" of contract. I pass over, of course, the political exigencies that cannot be regarded as economic. For the present purposes it is enough to consider whether judicial rents are in any cases economically justifiable.

It is alleged that in contracts for the hire of land, landlord and tenant are not on an equal footing, that there may be land-hunger on the one side and monopoly on the other. It may be at once granted that the old cottier rack-rents of Ireland — greater than ever could be paid — were unjustifiable even on the free trade principles of the

¹ Cf. *Tenant's Gain*, p. 97.

French law. And we may go farther and admit that, with land-hunger and agrarian pauperism of this kind, freedom of contract was a vain name; the tenants had neither the means nor the audacity to appeal to the courts, even if there had been laws in their favour; and, accordingly, the direct intervention of government was desirable. But it must be carefully noted that, so far, the real grounds of the intervention were, first, the right of the state to control monopolies, and secondly, the duty of the state to alleviate pauperism, and these two grounds are in their nature essentially distinct. It may be questioned if the fundamental evil in land-hunger is ever rack-renting. Nothing can be more certain than that where minute subdivision of the soil exists, the fair rent (judged by the capacity of the tenant to pay) is something below zero; and it may be doubted, when the holdings are sufficiently large, if rack-renting in itself has ever been such as to justify governmental interference. In the case of real agrarian pauperism, judicial rent is simply a mode of outdoor relief;¹ and the relief is generally too small to alleviate distress, and in reality tends to perpetuate the evil by taking away another inducement to emigration.

It is worth observing that the arguments I have been examining may be applied to the lowest forms of labour generally. It may be said that capital and labour are not on an equal footing, *e.g.*, as in the case of a master-sweater and his victims, and that the house-rents of the poor are governed by monopoly. But the attempts under the old poor laws to determine fair wages, and to provide house-room at fair rents, are the reverse of encouraging.²

It is plain, however, that if the cultivators are not paupers and the land-owners are not monopolists, judicial rents, if advocated, must be supported on other grounds. The ordinary British farmer fortunately neither suffers from land-hunger nor from landlord tyranny. At present,

¹ It is like the allowance for house-rent, described in the *Poor Law Report* (1834).

² Cf. *infra*, Ch. XI., § 7.

indeed, the hunger is not for the land but for the tenant, and the land-owner in many cases has to bribe his tenants to stay. In these circumstances it is not easy to give the appearance of plausibility to the demand for judicial rents.

It is true that it is extremely difficult¹ to forecast for a term of years the rent which a piece of land can really afford to pay; to pass over particulars, there is the uncertainty of seasons and the uncertainty of prices. But to suppose that governments can foresee what is hidden from those most interested is worse than rural simplicity. The best answer, however, to the proposal for governmental interference, on the ground of superior knowledge, is that the information, if it exists, should be published; at present, in reality, forecasts of judicial rents would probably not be so reliable as those of meteorology.

The fatal objection to judicial rents *ex post facto*, that is to say, on behalf of tenants in present occupation is, that the competition of more efficient tenants is excluded. The practical result is to hand over to the present tenants part of the rights of ownership. It must also be observed that, if the state is to come in to adjust reductions on the ground of unexpected losses, equitably, it should also come to the aid of the land-owners in the contrary case of unexpected profits.

There is one other reason sometimes advanced in support of governmental interference in exceptional cases: when a large number of tenants are in danger of insolvency, if their rents are exacted, it is maintained that agriculture is an industry of such magnitude, and the capital and skill required in it take so long a time to build up, that anything approaching the ruin of the present tenants would be a national disaster. In the first place, however, it must be borne in mind that agriculture has steadily progressed in spite of a series of prophecies of impending ruin during several centuries, especially the present; and secondly, that it would be for the interest of the landlords, in the

¹ See *infra*, Bk. II., Ch. XIV., Appendix.

prospect of such a calamity, to make reductions voluntarily; the recent reductions in Great Britain certainly evinced a kindly feeling, but they also evinced a sound understanding. It may be added, that if British agriculture were in real danger of ruin, the total abolition of rents would do little to prevent it; and the argument under review, if pushed to its logical extreme, must lead to protection — a far simpler remedy.

§ 4. *Compensation for Improvements under the Free Trade System.* The general principle of the French law as regards improvements, is that a tenant, on leaving the farm, should give it up in exactly the same state in which he received it, apart, of course, from any voluntary agreement to the contrary. Accordingly, he has the right to remove anything that he can — *e.g.*, buildings — consistently with this condition, and conversely, the land-owner can compel him, so far as possible, to remove anything that he pleases. If, however, the landlord elects to retain the improvements, he can do so by giving the original cost, without any regard to a subsequent rise in value. The obvious effect of this rule is to prevent the tenant making any serious changes without the consent of the landlord. The idea is, that the land is let for a limited term for a definite purpose, and that if the tenant knowingly goes beyond this, he has no claim. At the same time, the land-owner cannot (as in the case of fixtures in England), so to speak, fine the tenant by forfeiture; the case is treated as one of separating two kinds of property that have become mingled; the tenant obtains the original cost, but any rise in value is credited to the land. The same principle is applied in the case of deterioration or dilapidation by the tenant. He is bound to treat the land according to the rules of good husbandry, and to leave buildings, fences, etc., in as good condition as they were on entry.

In Ireland, and in Great Britain to a less degree, legislation has gone much further in the interest of the tenant, and its principles deserve careful attention.

§ 5. *Tenant Right and Free Sale.* It is a difficult task to compress into a single section the principles of the recent revolution in Irish land tenures, but for the purpose in hand it is best to avoid details. In Ulster the custom had prevailed for a long time of the tenant making all the improvements, and upon this custom there had grown up the right of selling them to the incoming tenant. In other parts of Ireland it was maintained that the custom had prevailed without the corresponding right, and that the land-owner, by raising the rent, practically robbed the tenant of his improvements. The hardship was aggravated by the practice of absenteeism.¹ The first step taken in the way of reform (1860) was to abolish every remnant of the old feudal law, and to reduce the relation of landlord and tenant to one of contract, as in the French system. It was held, however, that as between the landlord and a majority of the tenants there was not and could not be any real freedom of contract, because the tenants had no other means of livelihood in case of eviction, and must submit to any terms. Many encumbered estates were sold (under special provisions in a very simple way) to capitalists, who bought them purely as investments to yield money. The consequence, it was said, was an increase in rack-renting, and still greater confiscation of improvements. The threat of eviction was the sword in the balance.

Accordingly, an attempt was next made (1870) to give security of tenure. The principle was introduced of compensation for disturbance. The landlord might still evict, but the process was made expensive. The principle was novel, and the application² showed that it was introduced for indirect and ulterior consequences. At any rate, whether intended or not, the consequences soon appeared. Obviously, the land-owner could not equitably be com-

¹ The reader interested in the Irish land question should begin with Arthur Young's *Tour in Ireland* (1776).

² Cf. Richey, Ch. IX., for the scale adopted, which was extremely peculiar and illogical.

pelled to give compensation for disturbance, if the ground of eviction was non-payment of rent; otherwise, a tenant could practically live rent-free until his arrears were equal to the expense of getting rid of him,¹ and if he were evicted before, he would actually make a profit in addition. But if non-payment of rent destroyed the right of compensation, where was the security of tenure? What was to prevent the land-owner from raising his rents to the full competitive value?

To make the compensation for disturbance a reality, it was found necessary to initiate judicial rents; a beginning was made in the act of 1870, and in 1881 the method was fully developed. At the same time it was discovered or propounded that the law of 1870 had implicitly recognised the tenant's right to his improvements, and that no doubt might remain, he was now allowed to sell his right to the highest bidder. It is easy to see that logically free sale involves fair rents. For, as regards the tenant, the value of his right depends partly on the rent that must be paid, and if the landlord could raise the rent as he pleased, he could destroy the tenant's interest. On the other side, if the outgoing tenant was allowed to sell at the highest price, he might obtain what was equitably due to the landlord, owing to a natural rise in rent. It is, however, equally obvious that free sale, as has been well said, kills fair rent. If there is land-hunger, the value of the tenant right will be pushed by competition to such an extreme, that the interest on the sum, added to the judicial rent, will amount to a rack-rent. This discovery was fortunately made in time to prevent the grant of the doubtful boon of free sale to the crofters in Scotland. They obtained judicial rents and fixity of tenure, but, in their case, to make the fixity of tenure a reality, it now appears to be intended to give more land, or, as it will probably be called for the sake of alliteration, a fair share of the land.

§ 6. *Duration of Tenancy.* It has already been implied

¹ In the case of small farms the compensation was seven years' rental.

that fixity of tenure is associated with fair rent and free sale, but the point deserves distinct statement. The length of the lease, under the French law, is of course left to contract, and in case of dispute, reference is made to the circumstances of the case. The general principle applied is that it takes a certain time to remove capital and get in crops. Any further fixity of tenure obviously excludes competition, and is unjust to the land-owner and to others who wish to take land. Fixity of tenure necessarily involves fair rent; otherwise, the land-owner has simply to raise the rent to secure eviction.

§ 7. *Recent Changes in the English and Scottish Laws affecting the Hire of Land.* In Great Britain, with the exception of the case of Scottish crofters, the inroads made in freedom of contract in the hire of land have not been so great. A beginning, however, has been made, and already the law requires amendment. According to the Act of 1883, improvements are classified in three groups. In the first, which are supposed to be permanent, *e.g.*, buildings, no compensation is given except by agreement; in the second, *e.g.*, drains, the landlord is to have the option of making them himself and charging the tenant so much interest, but, in case of refusal, the tenant may do them and make a claim for compensation; in the third, *e.g.*, manures, compensation is compulsory. The general principle appears to be that land is supposed to be let *bona fide* for agricultural purposes, and that, in order to treat the land according to the modern rules of good husbandry, it is absolutely necessary to fix in or on the soil certain forms of capital. The more permanent forms are naturally (and by custom) provided by the land-owner, but those of a less durable character are furnished by the tenant, and it is considered only just that the tenant should secure compensation for such as are unexhausted on the termination of the lease. The justice of the case is supported on the purely economic ground, that if compensation is not given, the tenant, towards the end of his lease, will try to extract the value

from the land to the detriment of the land-owner. Under the old system of a nineteen years' lease, it was said that six years were required to get the land into condition by putting capital into it, during seven years the tenant treated the land as if he loved it, and the last six years were occupied in taking the capital out that was put in in the first six. In a former work¹ I advocated the extension of the principle of compulsory compensation, to any improvements that did not change the character of the holding. The working, however, of the recent act has been so unsatisfactory that I am inclined to doubt whether any kind of compulsion is desirable. As so often happens, it is in the practical application that the law breaks down. It is extremely difficult to estimate unexhausted improvements, and great discrepancies have occurred in the valuation of different arbiters. It must be remembered also, as is forcibly argued by the Duke of Argyll,² that compensation for improvements will not benefit the tenant so much as is generally supposed, because the privilege itself will have a pecuniary value; that is to say, a landlord will demand, and the tenant can afford to give, a higher rent in proportion. Under the old improving leases, as they were called, the rent was low because ultimately the permanent improvements were to go to the landlord.

§ 8. *Conclusion.* It may, perhaps, be plausibly maintained that the provisions of the Agricultural Holdings' Acts which apply to England and Scotland were intended to give effect to the real intentions of the contracting parties. There can be no doubt, however, that the three F's, fair rents, fixity of tenure, free sale of tenant right, and the fourth F, a fair share in the land, are directly opposed to freedom of contract, and the statesman who introduced them did well to send political economy to Saturn. Whether the principles can be justified on other grounds, such as social stability, differences of race, and

¹ *Tenants' Gain*, Ch. X.

² *Commercial Principles applied to Contracts for the Hire of Land*.

the like, it is beyond my province to inquire. It is, however, worth pointing out that the logical outcome of the Irish land legislation is to enable the tenants by state credit to purchase their holdings, and it seems unfortunate that the simple plan of expropriation was not at once adopted. It is also remarkable that, in spite of the series of boons conferred upon the tenants, the original giver should have thought it necessary, in the interests of security, to grant political independence or autonomy. At the same time, to prevent misapprehension, I should like to record the impression made upon my mind by a visit to Ireland some ten years ago. The country had all the appearance of being under military occupation, and government by force is repugnant to English feeling and tradition. The people, even in the most disturbed districts, showed not the slightest national animosity; on the contrary, they were excellent comrades, but any reference to land was certain to evoke some passionate outburst. As with the government, so with the land, something was wrong; and to give peace and prosperity to Ireland might well seem to be the highest ambition and the most pressing duty of a British statesman. If my criticism of the Irish land legislation seems too severe, it is at any rate not due to any want of sympathy. I may conclude this digression with observing that Adam Smith most strongly advocated the union of Ireland with Great Britain,¹ and he enforced his opinion by reference to the advantages which Scotland had derived from the union with England.²

¹ *Wealth of Nations*, Bk. V., Ch. III.

² Since this chapter was written, Mr. Shaw Lefevre has published his work on *Agrarian Tenures*. He gives a very clear and succinct account of recent land legislation.

CHAPTER X.

WAGES AND THEORIES OF WAGES.

§ 1. *Preliminary Account of Custom and Competition as Affecting Wages.* Just as customary tenures of land preceded conventional tenures, so also we may say that customary wages preceded competition wages. In the early land tenures there were, it is true, always present certain germs of freedom of contract, which eventually destroyed the old organisation; and similarly, in the determination of wages competition was never altogether absent, and in the course of economic progress it has become the preponderating influence. Even at present, however, in the most advanced industrial societies, wages depend partly upon causes which are more properly classed under custom than under competition. Most economists, in treating of wages, take wages as meaning the price paid for the use of labour, and apply the principles of demand and supply and cost of production as in the case of other commodities that bear a price. "The demand for men," says Adam Smith,¹ "like that for any other commodity, necessarily regulates the production of men"; and Ricardo,² "Labour, like all other things that are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price." Both writers allow for the effects of the habits and customs of the people, each according to his usual style of procedure; Ricardo, in a sentence and a footnote that are generally overlooked, and Adam Smith, in a chapter³ on economic history that has been reproduced in

¹ Bk. I., Ch. VIII. ² *Principles*, Ch. V. ³ Bk. I., Ch. X., Pt. II.

whole or in part in all the text-books. Later writers have also pointed out important differences between man and other commodities, but in general they have considered these differences only in so far as they modify the action of demand and supply; the idea of exchange value or price is still fundamental.

In the design of the present work, however, this mode of procedure is unsuitable, and instead of looking on custom as modifying competition I shall, first of all, only consider competition as part of the forces modifying custom. In tracing historically the growth of the power of competition the advantage of this method is obvious; it takes its place as one branch of the inquiry into the progress of society from status to contract. In such extreme cases as slavery and serfdom competition is plainly an inappropriate conception even as a guiding hypothesis, and in a modern industrial system there are many important influences affecting wages which are the results of the cumulative effects¹ of past conditions.

In the first place, however, it will be necessary to give a careful analysis of *wages*, and to point out the variable elements on which wages depend. Some of these elements, we shall find, easily fall under the sway of custom, whilst others are more liable to be determined by competition.

It will also be necessary, secondly, to indicate broadly the laws by which wages are governed under a system of industrial competition and freedom, before proceeding to the historical development. The mode of procedure is that already adopted in reference to property in general and land in particular.

§ 2. *Wages as the Real Reward for a Quantity of Labour.* Wages, like labour, may be regarded from two points of view, which, to adopt the phraseology formerly² employed, may be called subjective and objective, respectively. The words, it is true, are reminiscent rather of modern philosophy than of ancient custom, but they are useful ab-

¹ Cf. Marshall's *Principles*, Bk. VI., Ch. IX.

² Bk. I., Ch. V.

breviations for the purpose in hand; and the distinction implied is always of fundamental importance.

We may first consider wages as the reward for laying down so much ease and happiness (as Adam Smith phrases it), or, in modern parlance, as the utility that accrues to the labourer in return for the disutility of his toil; that is to say, we may look on work as involving a certain quantity of labour in the subjective sense,¹ and wages as furnishing so much happiness and satisfaction in the shape of the conveniences and necessities of life. If we reckon the reward simply in terms of money, the wages are called *nominal*; if we go behind the money and consider what it will purchase, and if, further, we take into account all the other desirable things the worker obtains in virtue of his toil, we arrive at the conception of *real* wages.

It is clear, however, that in either sense — nominal or real — wages is always a correlative term; it implies a certain quantity of labour. In *nominal* wages, *time* is generally the only element considered on the other side, and we describe wages as so much money per hour, day, week, or year. If other things remained the same, this would be sufficient for purposes of comparison; but in general, to estimate real wages we must go much further both in respect to wages and quantity of labour.

As regards *quantity of labour*, even time itself cannot be taken as uniform in its effects; the toil of the first hour is very different from the toil of the thirteenth. There are besides the other elements already² described in detail; the intensity of the labour, the preliminary preparation, the various general and special conditions under which the work is done, — mental, moral, and physical, — and the effects on the duration of life.

In estimating the *real wages*³ that correspond to a certain amount of nominal wages, we have to consider: —

¹ The elements involved have been examined in Bk. I., Ch. V.

² Bk. I., Ch. V., § 3.

³ See especially *Walker's Wages Question*, p. 12. sq.

I. *Variations in the purchasing power of money.* These variations may be due to general causes¹ which ultimately result in an alteration of the general level of prices. It is the period of transition that is of practical importance in the case of labour. Variations of this kind may be caused by a debasement of the currency, and there can be little doubt that wages do not readily rise in proportion to the debasement. Rogers has described the debasement of the currency under the Tudors as one of the principal causes of the subsequent degradation of labour over a long period; and Macaulay has given a graphic account of the sufferings of the labouring classes before the recoinage of 1695. Similarly, the issues of inconvertible notes in excess have frequently caused a disturbance in real wages. On the other hand, it is probable in some cases that a rise in prices, due to great discoveries² of the precious metals may give such a stimulus to trade and industry as to cause a rise in real wages.

Apart from these general variations we must consider also variations in local prices, and in making any estimate of the real value of nominal wages we must have regard especially to the principal items of expenditure³ in the class of labour under review.

II. *Varieties in the form of payment* require careful attention. Sometimes the payment is only partly in money, especially in agriculture. In many parts of Scotland the labourers still receive meal, peats, potatoes, etc.; often there are cottages and allotments, and sometimes a right of grazing for so much stock. In former times the use of a certain amount of land was the most common form of wages; it is, in fact, the correlative form of labour rent.

III. *Opportunities for extra earnings* are sometimes of

¹ The causes are examined in Bk. III. The variations due to them are here only noted for completeness of enumeration.

² See *Effects of Discoveries of the Precious Metals*, in my book, "Money and Monetary Problems."

³ Now often spoken of as Working-class Budgets.

great importance, especially if we take as the wage-earning unit the family and not the individual. At the present time, in Northumberland, a "hind" (*i.e.*, agricultural labourer) is more valued if he has a large working family and the family earnings are relatively large.

IV. *Regularity of employment* must always be taken into account. One of the most frequent errors is to assume constancy of employment when the reverse is the case, and to convert hourly, daily, or weekly wages into yearly wages by a process of simple multiplication.¹

V. *Liabilities for extra work* on various occasions are sometimes of importance, especially in cases in which the work done consists in services rendered.

Thus, in attempting to estimate real wages, we have to consider all the various discomforts (and occasional comforts) involved in the quantity of labour as well as all the conveniences which the nominal wages will purchase, and all the supplements in kind.

§ 3. *Wages as Payment for Work done.* From the objective standpoint, we have to consider wages as payment made for a certain amount of work, *e.g.*, raising so many foot-pounds, or rendering so much service. The quantity of labour (subjective) is now of importance only indirectly as an obstacle to be overcome, or as affecting the efficiency of labour. To the employer the vital economic consideration is not what the labourer feels, but what he does; and, again, not what the labourer gets in real reward, but what his work costs. Efficiency of labour takes the place of quantity of labour as fundamental, and real cost the place of real wages. The causes affecting the efficiency have already² been examined: qualities of race (mental and physical), the supply of food and other necessities, sanitary conditions, intellectual and moral activities of various kinds, and, finally, the elements embraced in division of labour³ and the organisation of industry.

As regards the real cost of labour, we must take into

¹ Cf. Foxwell, *Claims of Labour*, p. 186.

² Bk. I., Ch. V., § 4

³ Bk. I., Ch. VII.

account not only the money paid, but everything which involves any sacrifice on the part of the employer; in brief, the various elements noticed in the last section as affecting the real reward must be taken into account conversely as influencing the real cost.

The amount of work done may be measured¹ in different ways: (1) Simply by *time*. In this case, however, if the agreement is voluntary, there is always a tacit or expressed condition that so much work is done, measured by some other standard; and if the labour is forced, punishment of some kind is used to secure the same end. (2) In some cases a definite *task* is set to be done in a specified time, *e.g.*, to mow an acre of corn in a day. (3) Sometimes the work is measured by the *piece*, the time being apparently left to the choice of the worker. Here, however, there is, as before, really a condition implied or expressed that a certain minimum is done in a certain time. Corresponding to these modes of measuring work, we have *time-wages*, *task-wages*, and *piece-wages*. It will be seen, on reflection, that the differences depend on an adjustment of emphasis; domestic servants, for example, almost of necessity, receive time-wages, but unless they do a certain amount of work of a certain quality, they will be dismissed. The variety, however, in the services rendered, makes an exact measure of the work impossible. Again, in task-work or piece-work, the time occupied is often of great importance, and more than proportionately higher wages will be paid if more work is compressed into a given time, *e.g.*, in all operations dependent on the weather. Piece-work done in overtime, that is to say, beyond the normal hours of work, is generally more highly paid.

§ 4. *Conflict of Interests between Labourer and Employer.*

It is to the economic interest of the worker to give a minimum quantity of labour for a maximum real reward; of the employer to obtain a maximum of work at a minimum

¹ Cf. Schloss, *Methods of Industrial Remuneration*. See also *Economic Journal*, December, 1892.

real cost to himself. Thus the elements of conflict are always present, and are generally intensified by prejudice and want of appreciation of the real interests involved. To take the simplest case: the worker naturally wishes to work fewer hours a day for higher wages, whilst his employer wishes for more hours' work and less wages; the former is apt to forget that wages, after a certain point, must fall if hours are reduced, whilst the latter does not allow enough for the increased efficiency of short hours and good pay.

But the simplest case is not a fair sample of the actual complexities of the wages question. There is not one of the elements which go to make up a "quantity of labour," that may not give rise, at any rate, to an apparent conflict of interests; and this is equally true of the corresponding real wages. When we leave the simple elements of time and money, we may seem to enter the region of vague generalities; but good and evil of various kinds may be very real, although not capable of exact measurement, and it is certain that the real economic progress (or degradation) of the working classes can only be estimated when the various conditions of life and work are taken into account. Between the lowest forms of slavery and the highest types of free labour there are numberless gradations. We read of slaves, in ancient times, who were treated by their masters with the utmost respect and even friendship, just as, in modern times, we have instances of nominal freedom with real slavery.

It is precisely in the determination of the conditions of work, both general and special, that custom is often of supreme importance. Even when time, money, and quantity of work are fixed by free contract, there are always a number of tacit conditions imposed by custom, as well as others compulsory by law, which, as already explained, may economically be considered as a species of custom.

In the conflict of interests between labourer and em-

ployer, custom, in the broad sense here understood, has sometimes favoured one and sometimes the other. On the whole, however, in tracing the history of progressive societies, competition and freedom of enterprise seem to have continuously diminished the sphere of custom and authority in the determination of work and wages. One of the most important and interesting of economic inquiries is whether, by this process, the condition of the working classes has been ameliorated; for, if the answer is in the negative, the presumption may be established in favour of a restriction of individual freedom.

The difficulty of the question is increased when we observe that custom, in some of its forms, has in reality increased industrial freedom, whilst appearing to fetter it, and that sometimes custom is, as Professor Marshall points out,¹ a disguised form of slowly moving competition.

§ 5. *Harmony of Interests of Labourer and Employer.*
In many cases the economic interests of labourer and employer are only apparently in conflict, the difficulty is for the stronger side to recognise the real harmony. Rogers² has observed that every act of the legislature that seems to interfere with the doctrine of *laissez-faire*, and has stood the test of experience, has been endorsed, because it has added to the general efficiency of labour. The principle involved may be carried further; there can be little doubt that many institutions, laws, and customs, apparently only designed to diminish the intensity of labour, have increased also the work done for the employer. Similarly, a rise in money wages has often resulted in a diminution of the cost of labour,³ and that cheap labour is dear labour has long ceased to be a para-

¹ *Principles*, First Edition, p. 14.

² *Six Centuries*, p. 528.

³ The old ideas of Petty, Child, and other writers in the seventeenth and eighteenth centuries was that low wages and high prices of food forced labourers to work at higher pressure, whilst high wages made them lazy. Cf. Brentano, *Arbeitslohn und Arbeitszeit*, Second Edition, p. 2, and Appendix.

dox.¹ Especially when we regard the question from the national standpoint, and over a considerable period, does this real harmony become more apparent.

At the same time it must be admitted that the pre-established harmonies of writers like Bastiat are only tenable with the supplement of an optimistic natural theology. The conflict of interests in some points is as real as the harmony in others. It is true that a general increase in the national productive power tends so far to benefit all classes, and if there is more to distribute, all kinds of income may possibly experience a rise simultaneously. It was a favourite doctrine with Adam Smith² that it is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour, and his argument assumes that the incomes of employers being increased, there is more to spend on labour. He also maintained, however, that the most decisive mark of the prosperity of any country is the increase of the number of the inhabitants. The theory of wages, implied rather than expressed in the first position, is at any rate incomplete, and in spite of the second, may be easily turned or twisted into the wages-fund theory, from which Mill made such unfortunate and unsound deductions. But Adam Smith was always as much a historian as a theorist, and he gives important examples³ of the process that he goes on to explain. But it is clear that though the general increase in wealth may increase all incomes, it may do so very unequally, and, in spite of an average rise, in some cases may be accompanied by a diminution. Thus there is always room for conflict; profits, rents, and wages may rise together, but a rise in one may also be due to a fall in one or both of the others. More broadly, the general economic condition of all classes may be improved

¹ See *The Economy of High Wages*, by J. Schoenhof, for an excellent collection of modern instances.

² Bk. I., Ch. VIII.

³ *E.g.*, the growth of the American Colonies is contrasted with the stationary state of China.

at the same time; it is also possible, however, that one class may benefit at the expense of the rest.

§ 6. *The Natural Rate of Wages.* The older economists supposed that there was a certain "natural" rate about which "market" wages oscillated, and, in general, they also assumed that this rate was determined under a system of freedom of competition by the cost of producing and maintaining, at a certain standard, a certain number of labourers.¹ Recent economists, however, have objected to the use of the term natural as a question-begging epithet which implies a necessity that does not exist in fact and which may, in idea, be either optimistic or pessimistic, according to the philosophical bias of the writer. Accordingly, they have substituted the colourless term *normal*.² The change, which at first was one of words only, has in process of development been associated with a change of doctrine. This change, in substance, will be examined later on; at present we only need observe that, instead of confining the term to the results of free competition over a long period, they have extended it so as to embrace the meaning suggested by its etymology; and *normal*, as used in political economy, is defined as the adjective corresponding to *economic law*.

With this wide meaning, however, it is clear that the temporary fluctuations of market rates may be described as normal, equally with the average rates found by taking considerable periods. We may also speak of the normal values determined by monopolies and combinations, equally with the normal value of free competition. All economic phenomena are subject to laws, if only these laws can be discovered, and in this sense every economic effect is the normal result of certain causes.

It might be thought, at first sight, that this indefinite

¹ The clearest statement of this doctrine is, perhaps, that of McCulloch, *Principles*, Pt. III., Ch. II. (Edition 1843).

² Cf. Marshall's *Economics of Industry* (Edition 1879), Bk. II., Chs. I. and XIII., with the later treatment of "Normal" in his *Principles*, p. 84.

expansion of the term "normal" (or natural) has been unfortunate, because for a meaning definite and particular we have substituted one that is indefinite and general. But the truth is that the older meaning was only definite because it was false. It really implied that if time were allowed for the full play of competition, the average real wages in particular employments would conform to the general average of all wages in all employments; in other words, that the oscillations about a fixed point, or above and below a certain surface, would balance one another. The favourite illustration was the waves and the sea level. It was supposed that the natural level, or the general rate on the average over a long period, could be determined without reference to the temporary and local disturbances of markets. This natural level depended on the standard of comfort, which again, after certain allowances were made, was supposed to be uniform over the whole country considered; some writers, indeed, allowed that this standard was subject to slow variations, but it was assumed that the supply of labour would always be adjusted to the standard of its day and generation. There were also, it is true, permanent and natural causes of differences of wages in different employments, but having regard to these, all wages might be considered as, in the long run, about equal. McCulloch, as usual, may be taken as representing the ultra-orthodox school. "When," he writes, "the cost of their education, the chances of their success, and the various disadvantages incident to their professions are taken into account, those who receive the highest wages are not really better paid than those who receive the lowest. The wages earned by the different classes of workmen are equal, not when each individual earns the same number of shillings or of pence in a given time, but when each is paid in proportion to the severity of the labour he has to perform, to the degree of education and skill that it requires, and to the other causes of variation already specified. So long, indeed, as the principle of competition is allowed to

operate without restraint, or each individual is allowed to employ himself as he pleases, we may be assured that the higgling of the market will adjust the rate of wages in the different employments on the principle now stated, and that they will be, all things considered, nearly equal. If wages in one employment be depressed below the common level, labourers will leave it to go to others, and, if they be raised above that level, labourers will be attracted to it from those departments where wages are lower, until their increased competition has sunk them to the average standard. A period of greater or less duration, according to the peculiar circumstances affecting each employment, is always required to bring about this equalisation. But all inquiries that have the establishment of general principles for their object, either are, or should be, founded on periods of average duration; and whenever such is the case, we may always, without falling into any material error, assume that the wages earned in different employments are, all things taken into account, about equal.”¹

This doctrine of the real equality of wages obviously rests on the foundation of a natural rate of wages, and is supposed to be brought about by the action of free competition; equality means levelling, and the level is a certain standard of comfort that can only change over considerable periods.

The fallacy involved in this doctrine in the extreme form is so gross, that it may be exposed by simply looking to the ideas the words stand for. It amounts to saying that a given quantity of labour over an average period tends to obtain the same real reward; or, in less technical language, that all kinds of labourers, taking one thing with another, obtain an equal amount of happiness as the result of their toil; that freedom of competition tends, in the long run, to give the same balance of agreeable feelings to all classes of workers, from the lowest to the highest.

¹ McCulloch, *op. cit.*, p. 327.

If, however, wages were equal from this subjective standpoint, they could not also be equal from the objective standpoint, unless we also assume that all labour is equally efficient, and that the products of equal "quantities of labour" (*i.e.*, disagreeable feelings) always sell at the same price. But it is quite clear that no such simple harmony exists. In the same line of employment, competition tends to proportion wages to the efficiency of the worker, or to the quantity of work done; and wages in different employments, as will be shown later on, depend on a number of causes of which the feelings of the workers are only one.

At the same time, there is an element of truth in the theory: under the system of industrial competition, labour tends to flow into those occupations in which "wages are above the common level," and conversely. It must always be remembered that the average child may be trained to any ordinary employment or profession; the choice depends in general not on the special aptitudes of the child, but on the means and circumstances of the parent. But it is one thing to say that any rates above or below the level are unstable, so far as certain forces are concerned, and quite another to say that the final result of this instability must be equality. If the economic conditions of a society are subject to constant change, certain causes may have failed to produce their full effect before other causes come into play.

§ 7. *The Normal Rate of General Wages.* Are we then to say that the normal rate of general wages is practically an unmeaning expression,¹ and that "normal" only implies certain laws that cannot be discovered, and "general" an average that cannot be struck? By no means; the expression has a very real meaning, and some progress has been made towards the solution of the corresponding problem.

It is no doubt difficult, when we consider the immense variety of "occupations" in any civilised country, and the constant changes which are taking place, to form an ade-

¹ Such is the opinion of Mr. Devas.

quate conception of the general rate of wages. At the same time, however, no one will deny that if sufficient statistics are forthcoming, we can estimate the real progress of the working classes over a given period, or that we can compare their relative positions in different countries. The estimate may be only approximate and the comparison rough, but as far as they go they are real. The difficulties presented are of the same kind as those met with in the determination of the value of money, or the general level of prices, and may be overcome, to some extent, by the same methods. An "index number" may be formed by taking various kinds of labour as fair samples, and the nominal wages first taken may be corrected by a consideration of the elements in the real wages to which they correspond. Care must be taken, however, that the quantity and quality of labour compared at different times¹ and places are the same, just as in the case of commodities similar precautions are necessary.

In a work of this kind, the business of which is to unfold principles, nothing ought to be taken for granted on the score of familiarity. Accordingly I may observe that the adoption of "index numbers," or any other method of striking an average by taking samples, necessarily assumes that there are certain *general* causes and conditions operating upon all the class from which the samples are taken. If this assumption is not made we can never pass from the samples to the class. We cannot, for example, calculate the average height of the people of a country by taking samples of the heights of the houses and chimneys.² Similarly we cannot argue because the prices of 22 commodities have fallen, that the prices of 22,000 other commodities have also fallen, unless we assume that movements in prices are due, in

¹ The difficulties are well set forth and good illustrations are given by Cunningham, Vol. II., Appendix 1.

² We might do so, however, if we made the assumption constantly implied in *Gulliver's Travels*.

part at least, to general causes. We must, if the inference is to be at all accurate, go farther than this and assume that in the 22 articles the causes affecting the relative prices have, on the whole, balanced one another, and thus left the movement due to general causes open to measurement.¹

To resume the main argument: however difficult it may be to *measure* the general rate of wages in the same country at different times, or in different countries at the same time, there is no doubt that we can distinguish between the causes that affect wages generally and those that affect some particular kind. The distinction was drawn and developed by Adam Smith, and has been adopted by all subsequent writers. Where the conflict of opinion arises is as to the nature and number of the general and special causes respectively.

In most economic treatises since Ricardo, by a "country" or "nation" is understood an area or population throughout which industrial competition may be considered as the

¹ If it be assumed that mere changes in currency cannot ultimately disturb relative values, it follows that after time has been given for readjustment, such changes must have operated uniformly. If, then, a number of commodities be selected, the relative values of which have remained comparatively steady (that is to say, which have not suffered any considerable change in the conditions of production or demand), the movement in prices in these commodities must be ascribed to causes of a general kind. Hitherto, so far as I know, no one has attempted to select commodities with this principle definitely in view. "The only mode of eliminating these fluctuations," says Jevons, *Currency and Finance*, p. 26, "is to render our inquiry not more exclusive but more inclusive." The assumption is that the variations of some will compensate those of others.

If the surface of a lake or reservoir were still, the fall or rise during any period might plainly be measured at any point. If there were great waves and the measure were taken from a boat, an average of soundings must be made to determine the rise or fall in the depth of the water. Similarly the index numbers of particular commodities will furnish a measure of any general alteration in the height of prices. If relative values remained absolutely steady a movement in the price of any single commodity would measure the movement of the whole; but if relative values change a compensatory method must be adopted.

principal economic force in the distribution of wealth, and in which laws and customs are supposed to have comparatively little effect. Thus Mill: "Competition must be regarded in the present state of society as the principal regulator of wages and custom or individual character only as a modifying circumstance, and that in a comparatively slight degree."¹ As already stated, however, in the present work, this view will be adopted as provisional only, in order to bring out by contrast the earlier stages of development. The theory of wages, then, may be divided into two parts, giving answers to two questions: 1. What are the causes which determine the general rate of wages? 2. Why are wages in some occupations and at some times and places above or below this general rate?

§ 8. *The Wages-Fund Theory.* With regard to the first question, Adam Smith, as in almost every important economic theory, gives an answer which combines two views which were subsequently differentiated into antagonism. "The produce of labour constitutes the natural recompense or wages of labour," is the opening sentence of his chapter on wages.² But then he goes on to say that "this original state of things, in which the labourer enjoyed the whole produce of his own labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock." And he thus arrives at the conclusion that "the demand for those who live by wages, it is evident, cannot increase, but in proportion to the increase of the *funds* which are *destined* to the payment of wages." This is the germ of the celebrated wages-fund theory which was carried to an extreme by J. S. Mill and others; and, although Mill abandoned the theory some time before his death, he was unable to eradicate it from his systematic treatise, and to reduce it to its proper dimensions. It is important to observe that in the hands of

¹ Bk. II., Ch. XI., § 1.

² In discussing the general rate of wages I have made considerable use of my article "Wages" in the *Encyclopædia Britannica*.

Mill this theory was by no means, as was afterwards maintained by Professor Cairnes, a mere statement of the problem to be solved. According to Cairnes¹ the wages-fund theory, as given in Mill's *Principles*,² embraces the following statements: (1) The wages-fund is a general term used to express the aggregate of all wages at any given time in possession of the labouring population; (2) the average wage depends on the proportion of this fund to the number of people; (3) the amount of the fund is determined by the amount of general wealth applied to the direct purchase of labour. These propositions Cairnes easily reduces to mere verbal statements, and he then states that the real difficulty is to determine the causes which govern the demand and supply of labour. But the most superficial glance, as well as the most careful survey, will convince the reader of Mill's chapters on wages, that he regarded the theory, not as the statement, but as the solution of the problem. For he applies it directly to the explanation of movements in wages, to the criticism of popular remedies for low wages, and to the discovery of what he considers to be legitimate and possible remedies. In fact, it was principally on account of the application of the theory to concrete facts that it aroused so much opposition, which would have been impossible if it had been a mere statement of the problem.

The wages-fund theory, as a real attempt to solve the wages question, may be resolved into three propositions, which are very different from these verbal truisms. (1) In any country, at any time, there is a determinate amount of capital unconditionally destined for the payment of labour. This is the wages-fund. (2) There is also a determinate number of labourers who must work independently of the rate of wages, that is, whether the rate is high or low. (3) The wages-fund is distributed amongst the labourers solely by means of competition,

¹ *Leading Principles of Political Economy.*

² Bk. II., Ch. XI., § 1.

masters competing with one another for labour, and labourers with one another for work, and thus the average rate of wages depends on the proportion between wage-capital and population. It follows then, according to this view, that wages can only rise either owing to an increase of capital or a diminution of population, and this accounts for the exaggerated importance attached by Mill to the Malthusian theory of population. It also follows from the theory, that any restraint of competition in one direction can only cause a rise of wages by a corresponding fall in another quarter, and in this form it was the argument most frequently urged against the action of trade unions. It is worth noting, as showing the vital connexion of the theory with Mill's principles, that it is practically the foundation of his propositions on capital in his first book, and is also the basis of the exposition in his fourth book of the effects of the progress of society on the condition of the working-classes.

It has often been remarked that, in economics as in other sciences, what eventually assumes the form of the development of, or supplement to, an old theory, at first appears as if in direct antagonism to it, and there is reason to think that the criticism of the wages-fund theory was carried to an extreme, and that the essential elements of truth, which it contains, were overlooked. In many respects the theory may be regarded as a good first approximation to the complete solution of the problem. The causes which it emphasises too exclusively are after all *veræ causæ*, and must always be taken into account. There can be no doubt, for example, that under certain conditions, a rapid increase in the labouring population may cause wages to fall, just as a rapid decline may make them rise. The most striking example of a great improvement in the condition of the labouring classes in English economic history is found, as already shown, immediately after the occurrence of the Black Death in the middle of the fourteenth century. The sudden and extensive thinning of the ranks of

labour was manifestly the principal cause of the great improvement in the condition of the survivors.

Again, as regards the amount of capital competing for labour, the reality of the cause admits of no dispute, at any rate in any modern society. The force of the element is, perhaps, best seen by taking a particular case, and assuming that the general wages-fund of the country is divided into a number of smaller wages-funds. Take, for example, the wages of domestic servants, when the payment of wages is made simply for the service rendered. We may fairly assume that the richer classes of the community practically put aside so much of their revenue for the payment of the wages of their servants. The aggregate of these sums is the domestic wages-fund. Now, if owing to any cause, the amount available for this purpose falls off, whilst the number of those seeking that class of employment, remains the same, the natural result would be a fall in wages. It may, of course, happen in this, as in other cases, that the result is not so much a direct fall in the rate of wages, as a diminution of employment—but even in this case, if people employ fewer servants, they must do more work. Again, if we were to seek for the reason why the wages of governesses are so low, the essence of the answer would be found in the excessive supply of that kind of labour compared with the funds destined for its support. And similarly, through the whole range of employments in which the labour is employed in perishable services and not in material products, the wages-fund theory brings into prominence the principal causes governing the rate of wages, namely, the number of people competing, the amount of the fund competed for, and the effectiveness of the competition. This view, also, is in harmony with the general principles of demand and supply. If we regard labour as a commodity and wages as the price paid for it, then we may say that the price will be so adjusted that the quantity demanded will be made equal to the quantity offered at that price,

the agency by which the equation is reached, being competition.

But when we turn to other facts for the verification of the theory, we easily discover apparent, if not real, contradictions. The case of Ireland, after the potato famine, affords an instance of a rapidly declining population without any corresponding rise in wages, whilst, in new countries, we often find a very rapid increase of population accompanied by an increase in wages. In a similar manner, we find that the capital of a country may increase rapidly without wages rising in proportion—as, for example, seems to have been the case in England, after the great mechanical improvements at the end of last century, up to the repeal of the Corn Laws,—whilst in new countries, where wages are highest, there are generally complaints of the scarcity of capital. But, perhaps, the most striking conflict of the theory with facts, is found in the periodical inflations and depressions of trade. After a commercial crisis, when the shock is over and the necessary liquidation has taken place, we generally find that there is a period during which there is a glut of capital and yet wages are low. The abundance of capital is shown by the low rate of interest, and the difficulty of obtaining remunerative investments.

§ 9. *Criticism of the Theory.* This apparent failure of the theory, at least partially, makes it necessary to examine the propositions into which it was resolved more carefully, in order to discover, in the classical economic phraseology, the “disturbing causes.” As regards the first of these propositions,—that there is always a certain amount of capital destined for the employment of labour,—it is plain, that this destination is not really unconditional. In a modern society, whether or not a capitalist will supply capital to labour, depends on the rate of profit expected, and this again depends, proximately, on the course of prices. But the theory, as stated, can only consider profits and prices as acting in an indirect roundabout manner upon

wages. If profits are high, then more capital can be accumulated, and there is a larger wages-fund, and if prices are high, there may be some stimulus to trade, but the effect on real wages is considered to be very small. In fact, Mill writes it down as a popular delusion, that high prices make high wages. And if the high prices are due, purely, to currency causes, the criticism is in the main correct, and in some cases, as was shown above, high prices may mean low real wages. If, however, we turn to the great classes of employments in which the labour is embodied in a material product, we find on examination, that wages vary with prices in a real and not merely an illusory sense. Suppose, for example, that, owing to a great increase in the foreign demand for our produce, a rise in prices takes place, there will be a corresponding rise in nominal wages, and, in all probability, a rise in real wages. Such was, undoubtedly, the case in Great Britain, on the conclusion of the Franco-German war.

On the other hand, if prices fall and profits are low, there will so far be a tendency to contract the employment of labour. At the same time, however, to some extent the capital is applied unconditionally; in other words, without obtaining what is considered adequate remuneration, or even at a positive loss. The existence of a certain amount of fixed capital practically implies the constant employment of a certain amount of labour.

Nor is the second proposition perfectly true, namely, that there is always a certain amount of labourers who must work independently of the rate of wages. For the returns of pauperism and other statistics show that there is always a proportion of "floating" labour sometimes employed and sometimes not. Again, although, as Adam Smith says, man is of all baggage the most difficult to be transported, still labour as well as capital may be attracted to foreign fields. The constant succession of strikes shows that in practice the labourers do not at once accept the "natural" market rate. Still, on the whole, this sec-

ond proposition is a much more adequate expression of the truth than the first; for labour cannot afford to lie idle or to emigrate so easily as capital.

The third proposition, that the wages-fund is distributed solely by competition, is also found to conflict with facts. Competition may be held to imply in its positive meaning that every individual strives to attain his own economic interests, regardless of the interests of others. But in some cases this end may be attained most effectively by means of combination, as, for example, when a number of people combine to create a practical monopoly. Again, the end may be attained by leaving the control to government, or by obeying the unwritten rules of long-established custom. But these methods of satisfying the economic instincts are opposed to competition in the usual sense of the term, and certainly as used in reference to labour. Thus, on the negative side, competition implies that the economic interests of the persons concerned are attained neither by combination, nor by law, nor by custom. Again, it is also assumed, in making competition the principal distributing force of the national income, that every person knows what his real interests are, and that there is perfect mobility of labour both from employment to employment, and from place to place. Without these assumptions, the wages-fund would not be evenly distributed according to the quantity of labour. It is, however, obvious, that even in the present industrial system, competition is modified considerably by these disturbing agencies; and, in fact, the tendency seems to be more and more for combinations of masters on one side, and of men on the other, to take the place of the competition of individuals.

§ 10. *Wages considered as paid from the Produce of Labour.* The attempted verification of the wages-fund theory leads to so many important modifications, that it is not surprising to find that in recent times the tendency has been to reject it altogether. And thus we arrive at

the development of Adam Smith's introductory statement, namely, that the produce of labour constitutes the natural recompense or wages of labour. The most important omission of the wages-fund theory is that it fails to take account of the quantity produced and of the price obtained for the product. If we bring in these elements, we find that there are several other causes to be considered besides capital, population, and competition. There are, for example, the various factors in the efficiency of labour and capital, in the organisation of industry, and in the general condition of trade. To some extent these elements may be introduced into the old theory; but, in reality, the point of view is quite different. This is made abundantly clear by considering Mill's treatment of the remedies for low wages. His main contention is that population must be rigidly restrained in order that the average rate of wages may be kept up; but, as several American economists have pointed out, in new countries, especially, every increase in the number of labourers may be accompanied by a more than proportionate increase in the produce, and thus in the wages of labour. Again, the older view was that capital must be first accumulated in order afterwards to be divided up into wages, as if, apparently, agriculture was the normal type of industry, and the workers must have a store to live on until the new crop was grown and secured. But the produce theory of wages considers that wages are paid continuously out of a continuous product, although in some cases, they may be advanced out of capital or accumulated stores. According to this view, wages are paid out of the annual produce of the land, capital, and labour, and not out of the savings of previous years. There is a danger, however, of pushing this theory to an untenable extreme, and overlooking altogether the function of capital in determining wages; and the true solution seems to be found in a combination of the "produce" theory with the "fund" theory.

An industrial society may be regarded, in the first place,

as a great productive machine turning out a vast variety of products for the consumption of the members of the society. The distribution of these products, so far as it is not modified by other social and moral conditions, depends upon the principle of "reciprocal demand." In a preliminary rough classification, we may make three groups, the owners of land and natural agents, the owners of capital, or reserved products and instruments, and the owners of labour. To obtain the produce requisite even for the necessary wants of the community, a combination of these three groups must take place, and the relative reward obtained by each will vary in general according to the demands of the others for its services. Thus, if capital, both fixed and circulating, is scanty, whilst labour and land are both abundant, the reward of capital will be high relatively to rent and wages. This is well illustrated in the high rate of profits obtained in early societies. According to this view of the question, the aggregate amount paid in wages depends partly on the general productiveness of all the productive agents, and partly on the relative power of the labourers as compared with the owners of land and capital (the amount taken by Government and individuals for taxes, charity, etc., being omitted). Under a system of perfect industrial competition the general rate of wages would be so adjusted that the demand for labour would be just equal to the supply at that rate.

CHAPTER XI.

RELATIVE WAGES.

§ 1. *The Determination of Relative Wages.* The determination of the causes of wages in different employments, so far as they depend upon industrial competition, involves the application of the same principles as in the last chapter; but the application is much more difficult, because, instead of two great groups of labourers and capitalists, we have a multitude of subdivisions all under the influence of reciprocal demand. Each of these industrial groups, again, consists of employers and employed, and the proportional distribution of wages and profits is a matter of conflict. Every group might at first be supposed, like a great monopolist, to try to obtain as much as possible of the general product of the society, which is practically measured in money. But the conflict within the group weakens its collective power in bargaining. At the same time the power is still further weakened by the competition of master with master, and man with man. Thus, the idea of a multitude of struggling monopolistic groups is out of place precisely in proportion as industrial competition is effective. It is fortunate, both for the theory of wages and the progress of civilisation, that it is so; for, all that we can predicate, with any probability, of a nation of monopolistic castes is that, on the whole, less would be produced at a greater real cost. At the present stage, without anticipating the theory of value, it is possible, on the lines laid down by Adam Smith, to indicate some of the principal causes of differences of wages in different

employments. In the first place, it will be shown that both the minimum that any class of labourers will accept, and the maximum that any class of employers can give, are both subject to variation; and, secondly, the modes in which industrial competition affects relative wages will be examined. We shall thus be prepared to discuss in the next chapter the modes in which wages were once mainly and are still partially determined by law and custom.

§ 2. *The Minimum of Wages that Labour will accept.* It may be thought to need no demonstration that the lowest rate of wages that can be permanent in any occupation must be sufficient to support the labourers, and to enable them one with another to keep up their numbers.¹ In most countries, however, in which slavery has prevailed, it has been found cheaper to import slaves than to rear them. In most societies, also, in which labour is free, there is a certain class—sometimes very considerable in numbers—the members of which do not earn even the bare necessities, and who depend, in part at least, on some form of charity. In the richest countries in the world, at the present day, the margin of able-bodied pauperism fluctuates.

When we ascend above these low levels of subsistence, we reach the strata in which the standard of comfort becomes still more variable from class to class, place to place, and time to time. The standard of comfort operates mainly by affecting the supply of labour through the birth-rate, and its working depends, not so much on the judgment of individuals whether their children will eventually be as well off as themselves, as on a mass of customs and opinions that may or may not be well-founded. In some countries people cannot marry under a certain age or without a certain amount of money, and in others where the law is silent, the voice of class sentiment is equally strong. It may well happen, however, that in spite of these restrictions and ideas the supply of children may be excessive,

¹ Cf. Adam Smith, Bk. I., Ch. VIII. Ricardo, Ch. V.

the standard of comfort may fall in the next generation, and the process may be continued indefinitely.

It is to be observed that at first sight the standard of comfort seems to operate, as a rule, most strongly in the higher classes of labour, especially amongst the so-called professional classes,—that is to say, in these classes it operates most in retarding marriage and diminishing the number of children. But these classes are liable to be increased from above and below under modern conditions, and in former times the same result was achieved through the action of different causes, especially charitable education.¹ It appears, then, that the standard of comfort is not itself sufficient to determine the minimum of wages, whether in the lower or the higher grades of labour,—for this standard is itself variable and elastic, and only operates indirectly and slowly. Masons, shoemakers, and even common labourers, as Adam Smith has shown, have for long periods had a higher minimum wage than curates, and “that unprosperous race of men called men of letters”; and, in our own day, many artisans habitually receive a higher minimum than teachers and clerks, in spite of the apparently higher standard of comfort of the latter.

It is worth recalling the reasons given by Adam Smith² to show that the wages of common agricultural labourers in Great Britain in his time were nowhere regulated by the lowest rate “consistent with common humanity.” In most cases the reasons apply with still more force at the present time.

(a) Summer wages—he is referring to agricultural labour—are always highest; but especially owing to the cost of fuel, the maintenance of a family is most expensive in winter.

(b) Wages do not fluctuate with the price of provisions, and accordingly if the labourers can live in the dear years they have a surplus over the minimum when food is cheap.

¹ Cf. Adam Smith, Bk. I., Ch. X., p. 2.

² Bk. I., Ch. VIII.

(c) Wages vary more from place to place than the price of provisions: at any given time the latter may be considered nearly uniform over the whole country. Thus if the labouring poor can maintain themselves in places where the price of labour is lowest, they must be in affluence where it is highest.

(d) The variations in the price of labour not only do not correspond either in place or time with those in the price of provisions, but they are frequently quite opposite.¹ Thus again the average must be above the necessary minimum. It will be seen that the principle underlying these various examples is the same: real wages are unequal—the lowest rate supports life—therefore the other rates must yield a surplus. Thus, if we were to follow out recent analogies, we might speak of the surplus as labourers' rent.

But after all needful qualifications have been made as to the variableness and elasticity of the standard of comfort, the central position of what is really the Malthusian theory of population remains unshaken. The cheaper the staple food (*e.g.*, rice or potatoes as compared with wheat and meat), and other necessities (*e.g.*, the waist-cloth of the Indian and the Sunday clothes of the Briton), so much lower is the minimum of wages that the *lowest* classes of labour (ordinary unskilled labour) will accept, and the increase of population tends to make the actual rate approach the possible if only like the curve, which draws nearer and nearer to, but never actually touches, its asymptote.

The practical deduction so much emphasised by the older economists should not be allowed to drop out of sight, namely, that it is of great practical importance for a

¹ This point is treated with much elaboration and with many historical references. McCulloch also argues with later examples, that in dear years money wages are likely to fall, because the labourers are more anxious to work, and therefore the supply of labour is increased, *e.g.*, women and children must work. *Principles of Political Economy*, p. 389. See also Brentano: "*Arbeitslohn und Arbeitszeit*."

nation not to live on the cheapest food attainable, since in case of need there would be no inferior substitute to fall back upon. The Irish potato famine is the usual and a sufficiently striking example. Precisely the same argument may be applied to all the other necessities of labour: clothing, house-room, and education. It is also equally important to lay stress on the position — to which in recent times more attention has been paid — that a rise in the standard of comfort does not necessarily mean a rise in the cost of labour; it may, on the other hand, be more than counterbalanced by an increase in efficiency.¹

§ 3. *The Maximum of Wages that Employers can afford.* It is no more easy to assign a precise maximum than a precise minimum to wages. We may, of course, say that wages can never rise above what the employers of that class of labour can afford to give, but then there is always the ulterior question how much can they afford, and what are the determining causes? If the labour consists of services that perish in the act, as in the typical case of domestic servants, the maximum total cannot exceed the surplus income of the employers that is available after other necessary expenses are met. This, however, tells us nothing of the rate of wages unless we know the number of labourers. But the number depends on a variety of causes, one of which is the rate of wages itself, and even if we knew the number we obtain only an arithmetical average which admits of being made up by endless variations in the rates for different kinds of service. The surplus funds also, which are put aside for the employment of labour, depend partly upon the incomes of employers, partly upon the prices of other things, and partly upon the price of labour. Thus, even in this apparently simple case, we cannot arrive at any precise maximum of wages.

If the labour is devoted to the production of vendible commodities, again we may, of course, always say that wages cannot exceed the sum total obtained for the articles

¹ Cf. Schoenhof, *op. cit.*, and Brentano, *op. cit.*

sold; but a maximum of this kind is obviously liable to variation. We have to consider also what minimum share must be given to the other contributing factors, whether of labour or of capital, before the maximum of the wages under consideration can approach any degree of definiteness. Thus the same difficulties reappear, and below them is the still deeper difficulty: what causes determine the amount and the price (per unit) of the vendible commodity out of which both wages and profits are to be paid? The answer to this question obviously presupposes the theory of value.¹

It appears, then, as the conclusion of the argument of the last three sections, that there is no short and simple rule by which the normal rate of wages in any employment can be determined over a long period or in the long run. We cannot assign with any degree of precision the superior and the inferior limits between which it must lie, and thus we cannot fix upon any point about which the market rates must oscillate. What we can do, however, is to point out certain circumstances which cause certain classes to obtain more or less as their shares in the annual produce of the society. Following Adam Smith's classical treatment, these causes may be divided into two groups: (1) natural, or those dependent on the nature of the employment; (2) artificial, or those due to "the policy of Europe."

§ 4. *Natural Causes of Differences of Wages in Different Employments.* Adam Smith's enumeration and explanation of the natural causes of differences has been so frequently quoted and is so well known that only a short abstract seems necessary. It is worth observing, however, that here, as throughout his work, Adam Smith applies his principles to the highest as much as to the lowest grades of labour, and draws his illustrations from the wages of lawyers, clergymen, and artists, just as much as from those of common sailors, soldiers, and colliers.

(1) The agreeableness or disagreeableness of the employ-

¹ This subject in the present work is discussed in Bk. III.

ment is illustrated by two classical examples: "honour makes a great part of the reward of all honourable professions," and "the most detestable of all employments, that of public executioner, is, in proportion to the work done, better paid than any common trade whatever." There is, however, much truth in Mill's criticism, that in many cases the worst paid of all employments are at the same time the most disagreeable, simply because those engaged in them have practically no other choice. (2) The easiness and cheapness, or the reverse, of learning the business. This factor operates in two ways. A difficult business implies, to some extent, peculiar natural qualifications, and it also involves the command of a certain amount of capital to subsist on during the process of learning, and thus in both respects the natural supply of labour is limited. (3) The constancy or inconstancy in the employment, — a point already noticed under real wages. (4) The great or small trust reposed in the workmen, an important consideration in all the higher grades of labour, *e.g.*, bankers, lawyers, doctors, etc. (5) The chance of success or the reverse. Here it is to be observed that, owing to the hopefulness of human nature and the influence of the gambling spirit, the chance of success is generally overestimated, and, therefore, that the wages in employments where the chance of success is really small are lower than they ought to be. The most striking instance is furnished by the labour in gold mines, diamond fields, and the like, and the same cause also operates in many of the professions.

All these causes of differences of wages in different employments may be explained by showing the way in which they operate on the demand and supply of labour in any particular group. If the "net advantages," to adopt Professor Marshall's phraseology, of any group are relatively high, then labour will be directly attracted to that group, and the children born in it will be brought up to the same occupation, and thus in both ways the supply of labour will be increased. But the "net advantages" embrace the

conditions just enumerated. Again, if the other members of the community require certain forms of labour to a greater extent, there is an increase in the demand and a rise in their price.

§ 5. *Conditions of the Operations of the Natural Causes.* It is important to notice the conditions laid down by Adam Smith, in order that these natural causes may have their full effect.¹ (1) In the first place, at the outset, he states that the employments compared must be in the same neighbourhood. In modern phraseology this implies that the mobility of labour is practically perfect, that the labourers know the conditions of work in different trades² and can move readily from place to place and employment to employment. (2) The employments considered must be well known and long established. In new trades, other things being equal, the projector can only attract sufficient labour by offering higher wages. In trades also in which fashion changes rapidly, the same cause operates. (3) The employments must be in their natural (or normal) state. "The demand for almost every different species of labour is sometimes greater and sometimes less than usual." Thus in agriculture, wages vary with the seasons, in the army and navy with war or peace, in many industries with the price of the produce, which again varies according to the quantity. (4) The trades considered must be the sole or principal employments of those who occupy them. The principle involved is that when a person obtains his subsistence from one occupation, he may work in his leisure at another, for less wages than would otherwise correspond to the nature of the employment. We have instances in various domestic industries. Here, however, as Mill observes, we must distinguish between the case in which the price depends mainly on the domestic supply and the case in which the price is governed by an outside market. A good illustration of Adam Smith's meaning is found in the

¹ Bk. I., Ch. X., Introduction.

² In Scotland artisans are commonly called tradesmen.

low wages obtained for literary work, although, of course, other causes — *e.g.*, honour or vanity — also operate.

§ 6. *Artificial Causes of Difference of Wages in Different Employments.* According to Adam Smith, the policy of Europe has produced and increased inequalities in wages in three different modes, all of which are treated from the point of view of their effect upon competition: (1) In some employments competition has been unduly restrained, as, for example, by the action of guilds and corporations; (2) in others it has been unduly increased, as in the church by charitable education; (3) in some cases the free circulation of labour and capital, whether from employment to employment or place to place, has been obstructed by legal or customary regulations. In addition to these modes of action, he considers later on the direct interference of the law in fixing definite rates of wages. Whilst fully admitting the reasonableness of this arrangement and availing myself, as usual, of Adam Smith's learning and criticisms, I find it more in accordance with the general plan of this work to adopt a different method of inquiry. The subject is of such importance as to deserve a separate chapter.

CHAPTER XII.

THE EFFECTS OF LAW AND CUSTOM ON WAGES.

§ 1. *Modes in which Law and Custom may affect Wages.* It follows from the analysis previously given¹ that law and custom may operate on wages — considered as the net reward of labour for its toil — in three ways: namely, by affecting (1) the quantity of labour and the conditions of work; (2) the amount and nature of the real reward; (3) the relations of employers and employed in making contracts for labour. In the broadest sense of the terms the third mode may be said to include the other two, but as stated it refers specially to the relative powers of the two parties, — a topic of sufficient importance to deserve separate mention. In general, customs, social institutions, and laws of various kinds affect these three elements simultaneously, though in different degrees.

§ 2. *Slavery, Serfdom, and Patria Potestas.* In tracing, as regards labour, the development of freedom of contract,² in which, when perfected, we may suppose that both parties are on an equal footing, we must begin with the social state in which the powers of the employer are paramount. The two principal examples are the relations of master and slave, and of the head of a family to its members. In these cases the term “contract” is used entirely as “a convenient form for the expression of economic truths”; it is strictly only a quasi-contract, which, as Maine says, is no

¹ Ch. X.

² Cf. Maine's *Ancient Law*, Ch. IX., for the general development of contract.

contract at all, that is to say, by analogy we speak of the relations between the parties as if they were determined by contract, though in reality they are not.

In slavery in its rudest form the master lays down the conditions of work, and allots the reward altogether independently of the wishes of the slave; he may kill him with overwork or with insufficient food. By the theory of the Roman lawyers, slavery was derived from a supposed agreement between the victor and the vanquished, in which the first stipulated for the perpetual services of his foe, and the other gained in consideration the life which he had legitimately forfeited.¹

Slaves may be regarded, from the point of view of their owners, like free labourers from the point of view of their employers, either as sources of profit or as causes of expenditure. In ancient Greece it was a common practice for people to invest their capital in slaves, and to make a profit by letting them out for all sorts of industrial undertakings. At the same time the poorest citizen had usually at least one slave for domestic service. At Rome, towards the end of the republic, and still more during the first centuries of the empire, a person's social position was estimated by the number of slaves he maintained.² From the earliest times the Romans employed slaves even for the cultivation of land, although this was almost the only industrial employment considered to be consistent with the dignity of a free man.

It is impossible here to give the steps by which in progressive nations slavery gave place to serfdom, and serfdom to free labour.³ The causes were various — legal, moral, political, as well as economic. But, as already shown, the discovery, by a long series of tentative experi-

¹ Maine, p. 162.

² "Quot pascit servos?" (*Juv. Sat.*, III., 141) was the usual test of a man's expenditure, just as in modern times the number and kind of domestic servants might be taken as a fair measure.

³ Cf. *supra*, Bk. II., Chs. VI. and VII.

ments, that slave labour is of all kinds the most inefficient, and that punishment and authority are inferior to reward and free contract, as stimulants to exertion, may be considered as the dominant economic principle of abolition. It is, however, important to recall the fact that slavery still exists over large areas, and has only been abolished in the present century in the English and French colonies and in the United States.¹ It is still more important to observe that so far as the power of making bargains for his labour is concerned, a free person may, under certain conditions, be little better off than a slave, and in effect he may be compelled to submit to any terms the employer chooses to impose. Industrial history is full of examples of these one-sided bargains, some of which will be noticed in the following sections.

Patria potestas may be regarded as originally a species of slave power² mitigated by natural affection. The varieties this power assumed in different countries and ages, and the modifications introduced by law and custom, have given rise to an extensive literature. Here again the causes of emancipation are only partly economic; but it is doubtful if the disintegration of the family would have been effected but for the action of purely economic forces. At Rome, for example, the powers of the father over the person became almost nominal, whilst his rights over the property of his son were still practically unlimited. In this respect the utmost relaxation under Justinian³ left the *patria potestas* "far ampler and severer than any analogous institution of the modern world."⁴ It is easy to see that, under any conditions, the power of the father must have been very real so long as he held the

¹ The dates are 1833, 1848, and 1865 (end of the Civil War), respectively. In 1749 the preamble to an act of Parliament speaks of the slave trade as one of the most important branches of British commerce.

² Cf. Maine's *Ancient Law*, Ch. V., p. 164, on the relation of the slave to the family.

³ Inst. Lib. II., Tit. IX.

⁴ Maine, *op. cit.*, p. 143.

purse of the son. The gradual acquisition of the right of separate accumulation by the members of the family is as instructive from the economic as from the legal standpoint; but the subject is too intricate for intelligible condensation.

Although in modern industrial societies the individual has taken the place of the family, as the unit of society, to a great extent, the power of the parents over the children is always considerable. Some of the greatest abuses, often amounting to criminality, have arisen in connection with child-labour permitted or enforced by the parents. Even in the normal case of natural affection, the choice of employment, in the first place, depends on the parents, and they are apt to regard the present more than the future.

§ 3. *Apprenticeship.* The system of long apprenticeships is a good example of the superior power of the employer. The old term of seven years, as Adam Smith showed, was not necessary for instruction,¹ even in the arts, such as watch-making, which are more difficult than common trades. The system in general tended to promote idleness rather than industry, for the obvious economic reason that for so long a period the apprentice received no proportionate pecuniary benefit from his work. All the legislation on the subject shows that the main result of the institution was to lower wages. Thus, provisions were constantly made, either by statute (*e.g.*, the statute of Apprenticeship, 5 Elizabeth, c. 4) or by the by-laws of corporations and guilds, to restrict the number of apprentices any master might have, either indirectly by birth or pecuniary qualifications, or absolutely, or relatively to the number of journeymen. By the statute just referred to, whoever had three apprentices² must keep one

¹ This opinion is confirmed by Eden, Vol. I., p. 430.

² This regulation—section 33—applies to “cloth-makers, fullers, shearmen, weavers, tailors, shoemakers,” and not generally, as Brentano assumes, *Gilds and Trade Unions*, p. 103.

journeyman, and for every other apprentice above three, one other journeyman. In order to restrict the employment of this species of cheap forced labour, the opposition to the growth of the factory system towards the end of last century generally took the form of attempts to enforce the customary or legal limitation of the employment of apprentices. It was also to the interest of the masters, under the old system of small industries, that one should not obtain an unfair advantage over the rest, and they also wished to restrict the number of those who might eventually become masters. But with production on a large scale, and the increasing use of machinery, the advantage of employing more children than men seemed to the employers too great to admit of restriction, especially when there was no danger of those children rising to be masters themselves. Accordingly, the statute of Apprenticeship was repealed (1814) at the instigation of the employers and against the petitions of the men.¹

The system of parish apprentices, by which people were compelled to take poor children as apprentices, at first sight appears to contradict the argument just advanced, for the employers often considered this forced apprenticeship as a burden.² They did so, however, only because they were compelled to take more than they could profitably use. The various acts,³ passed at different times, enabling masters to take the children of the poor into their service against their will, show that in moderation it was regarded as a privilege. Apprentices under the old sys-

¹ This topic is very fully treated by Brentano: *Gilds and Trade Unions*, Part V.

² Nicholls' *Poor Laws*, Vol. II., pp. 87, 88. The parish apprentices were at first bound up to 24 (39 Eliz.), but the age was restricted to 21 (18 George III.), in favour of the apprentices. Cooke Taylor's *Modern Factory System*, p. 185.

³ Cf. Howell's *Conflicts of Labour and Capital*, Ch. VI., for a full account of the existing system. At present, one of the constant points of dispute in the Edinburgh printing trades is as to due proportion of apprentices to journeymen.

tem seem to have been treated in many cases with great harshness and cruelty, so that the legislature was obliged to interfere. On the introduction of the factory system, these abuses were greatly increased, the labour of the parish apprentices being the cheapest obtainable. The custom of apprenticeship still prevails to a large extent, and in some trades the number of apprentices is restricted in favour of the journeyman, the former receiving lower wages for precisely the same work towards the end of their time.¹

§ 4. *Craft Guilds.* The subject of apprenticeship naturally leads to some consideration of the craft guilds of which it was an essential element. Since the publication of the work of Brentano, much attention has been devoted to the history of the English guilds, and his position that the craft guilds were primarily instituted to protect the craftsmen against the richer members of the merchant guilds, seem to be no longer tenable.² The craft guilds represented a peculiar form of the organisation of industry that was dominant during some six hundred years, and was only destroyed by the industrial revolution at the end of the eighteenth century. The guilds themselves, it is true, long before this time³ lost most of their powers, but the principles at the basis of their regulations remained to a great extent in force, partly through legislation, and partly through custom. The general features of the system, when it was in full vigour, are in marked contrast to those that prevail at present. In the typical case before a man could practise any craft, he must be a burgess of the

¹ See note 3, p. 361.

² Dr. Gross (*Gild Merchant*, p. 109) says: "As to a general struggle throughout England between the Gild Merchant and the Craft Gilds in the fourteenth or any other century, resulting in a victory of the latter and a demoralisation of municipal government, all this is a myth, for the wide acceptance of which Brentano is mainly responsible." Cf. Cunningham, Vol. I., Bk. III., Ch. IV., pp. 309-318. Lambert, *Two Thousand Years of Gild Life*, Ch. XVIII., p. 185.

³ Cunningham, Vol. II., p. 45.

town. If strangers were admitted, it was only on payment of a heavy fine. The craftsman was thus a privileged person, but he was also under the government of the municipal authorities. When the craftsmen were sufficiently numerous, they formed themselves into a guild, and framed rules for the regulation of their industry. In order that these regulations might be effective, membership of the guild became compulsory. In this way the element of monopoly was introduced, but the natural consequences were prevented by the authorities of the town, for the craftsmen were always burgesses first and guild-brethren afterwards. Accordingly, many of the regulations referred to the quality of the work or the use of good materials. So far, they resembled our laws against adulteration, but the principle was carried much further.

As regards work, apprenticeship was essential. The apprentices as a rule must be free born in the town, the number was limited, they lived with their masters, and the period was generally seven years. It is often still maintained (in spite of Adam Smith) that the leading idea of the apprenticeship was to ensure the skill of the worker. The long and uniform term of service, however, hardly bears out this contention. We cannot suppose that all trades presented equal difficulty in learning, or even that most required seven years. It is certainly remarkable, as pointed out by Mr. Lambert,¹ that the same period was required under certain conditions to convert a bondman into a freeman. Thus the fundamental notion seems to be rather one of discipline and subjection,² although of course the apprentice was also taught his craft.

It was observed by Adam Smith, that although agriculture is the most difficult of all arts, there was never in it

¹ *Op. cit.*, p. 209. Cf. Lord Coke's opinion, quoted by Eden, Vol. I., p. 430. See also the indenture quoted by Cunningham, Vol. I., p. 316. The apprentice is not to go to any sport without his master's leave.

² Cf. Nicholls, Vol. I., p. 58. Children brought up to agriculture until the age of twelve could not be apprenticed to any other trade.

any system of apprenticeship. This is an error in fact, as apprentices to husbandry were regulated for by the statute of Apprenticeship.¹ But when the craft guilds were founded, agricultural labour was unfree and serfdom of various degrees was a species of permanent apprenticeship, so far as regulation of work was concerned. It is worth noting also that, on many occasions in history, real slavery has been disguised under the style and name of apprenticeship.

The distinction between the journeyman and the master under the guild system was not great, as the number of apprentices was limited. The necessity of this limitation seems to be closely connected, as explained in the last section, with the low payments made to apprentices.²

Some of the requisitions of the guilds seem to have been expressly designed to restrict undue competition. Thus the employment of women and strangers was often expressly forbidden under definite penalties; no one was allowed to entice away another man's apprentices; and various conditions were imposed as to hours of labour and methods of work. The official searchers exercised a general police superintendence,³ and offences were punished with fines, and in extreme cases by expulsion. At the same time, in common with other forms of guilds, the craft guilds were supposed to be actuated by a spirit of brotherhood; they had common feasts and religious ceremonies, provisions were made for assisting poor and sick members, all were to be summoned to weddings and funerals, and "brethren and sisters were to have the lights at their decease, and if in poverty, freely." In process of time,

¹ In § 25.

² In the same indenture quoted by Cunningham the apprentice (A.D. 1430) is to get 3s. a year in money the first year, and an annual increase of 3d. In his last year (the eighth) he is to get 10s. But at this time, according to Rogers (*Six Centuries*, p. 327), the wages of the artisan were commonly 6d. per day, and the cost of maintenance of a labourer is put down at 6d. to 8d. per week.

³ For curious examples of the discipline of the crafts, see Bain's *History of the Aberdeen Incorporated Trades*.

the brotherhood and equality of the old guilds disappeared, the distinction between masters and men became stronger, and the regulations were used to keep up monopolies in certain families.¹ Oppression of the workmen was associated with plunder of the consumer until the guilds deserved Bacon's description, "fraternities in evil."

On the whole, the conclusion appears to be justified that the guilds were favourable to the working classes only so long as employers and employed were practically on an equal footing, that is to say, when there was no real distinction of classes and when every apprentice might hope to become a master. As soon as, with the growth of wealth, the masters became dominant, the guilds ceased to aim at a fair day's wage for a fair day's work.

§ 5. *Legislation with Respect to Masters and Servants.* "Whenever," said Adam Smith, "the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters. When the regulation, therefore, is in favour of the workmen, it is always just and equitable, but it is sometimes otherwise, when in favour of the masters."² This partiality of legislation is rapidly disappearing under the growth of democratic influences, but, when Adam Smith wrote, the appeal to history generally confirmed his opinion. Directly and indirectly, governments had attempted to regulate wages in favour of the employers. The statutes of labourers passed (A.D. 1349-1363) after the occurrence of the Black Death are the first prominent examples of a series of enactments for fixing by law the rates of wages and hours of labour. These acts were passed on an emergency, which, for the time, threatened to paralyse industry, but they were based on principles which were applied by the legislature up to the end of the eighteenth century and even later.³

¹ Brentano, *Gilds and Trade Unions*, p. 85. The process of decay is very well described in this work.

² Bk. I., Ch. X., p. 11.

³ Nicholls' *Poor Laws*, Vol. I., p. 44.

First: they fixed rates of wages for a large number of specified occupations, and servants not specified were to be sworn before the justices to do and use their crafts and offices in the manner they were wont to do in the time before. Secondly: they compelled the labourers, with some exceptions, to stay winter and summer in their native place if employment was forthcoming. Thirdly: they regulated the prices of articles of food as well as labour.¹ Fourthly: the act of 1363 regulates the diet and clothes of the several orders of men. The statutes regulating wages were repeated from time to time and culminated in the statute of Apprenticeship, by which (and the amending act of James I.) the justices were to assess wages for all classes of artificers and husbandmen. It is true that, by this statute, the justices were to give the labourers a convenient proportion of wages, both in the time of scarcity and the time of plenty, and some writers seem to have taken the intention of the words for the fulfilment of the deed. Eden,² however, doubts whether the justices of any county after they had once settled the assize of labour altered it once in the course of half a century, and this view is confirmed by the small number of assessments that survive.³ Rogers, on the other hand, thinks the power was used to depress wages. The principle of fixing labourers to their native towns and villages was on the one side connected with serfdom, and on the other eventually gave rise to the laws of settlement. An admirable account of the history and economic effects of these laws is given by Adam Smith.⁴ He begins by refer-

¹ The statute of 1349 only states "a reasonable price, having respect to the price that such victuals be sold at in the adjoining places; so that the same sellers have moderate gains reasonably to be required according to the distance of the place from whence the said victuals be carried." The act of 1363 fixes some prices definitely, *e.g.*: a goose, 4*d.*; a hen, 2*d.*; a pullet, 1*d.*

² Vol. I., p. 141.

³ Cf. Hewins' *English Trade and Finance*, p. 82. Rogers' *Interpretation of History*, p. 40.

⁴ Adam Smith, Bk. I., Ch. X., Part II.

ring to the "present state of this disorder, the greatest, perhaps, of any in the policy of England," and he concludes his investigation with the remark that "there is scarce a poor man in England of forty years of age who has not in some part of his life felt himself most cruelly oppressed by this ill-contrived law of settlements." The regulation of prices of provisions and other goods was much less effective and was sooner abandoned. Several instances, however, occur in the time of the Tudors, and it is worth recalling that the laws relating to the assize¹ and price of bread for London and its environs, were only repealed in 1815, and in other places seem to have gradually fallen into desuetude. Sumptuary laws, also, were re-enacted in the time of the Tudors, and at the present day the force of custom is so great that it seems odd if people dress or live above their "station in life."²

From the earliest times, we find examples of legislation in favour of the labourers, and it is impossible to accept the partisan opinion of Rogers, that the various governments concerned were consciously hypocritical. In particular the statute of Apprenticeship,³ which he so severely condemns, contains several provisions for the protection of the workmen and apprentices; thus, a servant could not be dismissed without a quarter's warning, and regularity of employment was secured by yearly engagements. The preamble to the statute also declares that, although many laws had been passed affecting wages and employ-

¹ For the early history, see Cunningham, Vol. I., Appendix A. On the times of the practice of assessment of wages, see Cunningham, Vol. II., p. 369.

² The jokes in *Punch* are sufficient proof.

³ Brentano's opinion on this statute as regards the workman is far too favourable, and his abstract of it is partly erroneous. Thus, clause 12 provides that from the middle of March to the middle of September the hours of those hired for wages by *the day or the week* shall be from five, or earlier, to between six and eight, with intervals of $2\frac{1}{2}$ hours maximum for meals and sleep, if sleep is allowed in the day. Brentano makes this apply to *all* workers under the act, and calls it a working day of about 12 hours.

ment, which at the time had been thought good and beneficial, yet these laws cannot be put in execution without great grief and burthen to the poor labourers and servants, chiefly because "the wages limited are too small and not answerable to this time, on account of the great advancement in prices."¹

Adam Smith points out, that the law, which obliges masters to pay their workmen in money and not in goods, was just and equitable. These "truck" acts may be traced far back,² and at the present time their application is still more thorough and extensive. The act of 1831 is the basis of the modern English system. Truck (from the French *troc*) primarily signifies barter of commodities, but when used in connection with labour, refers to the payment, or part payment, of wages in goods. These goods may be (*a*) those actually produced by the labourer, or (*b*) those articles that are necessary, or supposed to be necessary, for his consumption. Both forms have been proved historically to be liable to great abuses. It is on record, to take an example of the first method, that the agricultural labourers of the cider-producing counties, in England, received from 20 to 50 per cent of their wages in cider.³ On the second plan, the workmen were compelled to spend their wages at stores conducted for the profit of the masters. The quality of goods was inferior, the prices were high, and the management was inconvenient to the purchasers. There was no need for advertising or for a large staff of attendants, and there were no bad debts, as the wages could be kept back. It is interesting to contrast these masters' stores with those managed on co-operative principles. In both we have

¹ Nicholls, Vol. I., p. 157.

² For examples previous to this century, see Leoni Levi, *British Commerce*, 1st ed., p. 180. There is an excellent examination of the truck system in Walker's *Wages Question*, Ch. XVIII. For a brief summary of the English Laws on the subject, see Smith's *Mercantile Law*, 10th ed., Vol. I., p. 525.

³ Mr. Spender, quoted by Walker, p. 327.

savings and economies, absence of credit and a certain amount of inconvenience, but in the latter the sum gained in this way goes to increase wages indirectly instead of profits directly.

It is to be observed, however, that in some cases truck may be advantageous, especially in agriculture, and the truck acts do not generally apply to that industry. The allowance of a certain amount of farm produce, or the right to keep a certain amount of stock, or to use so much land, may be worth to the labourer more than its money value.

The abuses connected with "frame rents"¹ were analogous to those of the truck system. The workmen were obliged to hire these frames from the masters, and the rates charged (A.D. 1779) sometimes amounted to 86 per cent interest. The practice is first noticed in 1745, and in 1779 a bill was introduced for preventing the abuses connected with it, but it was thrown out. The Truck Act of 1831, although making it illegal for the employer to set off goods supplied to the labourers against his wages, makes no such prohibition of payments for frame rents and the like, and the stoppage of wages for frame rents was not abolished till 1874.

§ 6. *The Factory Acts.* The long series of acts (from 1802 to 1891) relative to the conditions of work in factories and workshops deserve special attention. The abuses which they were designed to remedy can only be adequately realised by a reference to the detailed accounts

¹ For a detailed account, see Brentano, *op. cit.*, p. 119; Walker, p. 333, where the reports of the Commission of 1844 and the Committee of 1855 are quoted. At the latter date, frames earned 24 per cent profit after paying all expenses and interest on the capital. The following passage is from the maiden speech of Lord Byron in the House of Lords (1812), in the debate on the frame-breakers' riots: "I have traversed the seat of war in the Peninsula; I have been in some of the most oppressed provinces of Turkey; but never under the most despotic of infidel governments did I behold such squalid wretchedness as I have seen since my return in the very heart of a Christian country." — *Moore's Life of Byron*, Vol. II., p. 126.

furnished by a mass of official reports.¹ The lurid picture drawn by Marx² is in some respects exaggerated; all the masters were not utterly bad, and all the evils cannot be traced to the system of work. Wages were in many cases relatively high. At the same time, some of the evils were so great that exaggeration seems impossible.³

The accounts of the employment of children, especially the parish apprentices, are in many cases revolting; their hours were often as long as cruel punishments could exact; their labours were only limited by the necessity of obtaining a minimum of time for sleep and nourishment; their food was the food of pigs; the common decencies of life were ignored; diseases abounded, but none were considered ill if threats or blows could make them work; the very race became dwarfed and stunted; the system was in effect unmitigated slavery.⁴

As early as 1802, Sir Robert Peel⁵ brought in and passed a bill to limit the hours of labour in woollen and cotton mills, and generally to regulate the conditions of labour

¹ An excellent account—temperate and impartial—of the Factory System, by an able contemporary observer, is *Artisans and Machinery*, by Dr. Gaskell (1836). He gives examples of the contradictory nature of the evidence.

² *Capital*, Parts III. and V. The picture of facts must be separated from the peculiar and, in my opinion, utterly erroneous theory of value given in *Capital*.

³ Compare the *Reign of Law* (Ch. VII.), by the Duke of Argyll, in general an ardent individualist. See also Cooke Taylor's *Modern Factory System* (Ch. VI.); von Plenar's *History of the Factory Legislation*; *Threading my Way*, by R. D. Owen.

⁴ Compare, for details, the narrative of Robert Blencoe, quoted by Mr. Cooke Taylor, *op. cit.*, p. 189. The apprentices actually stole the food of the pigs, until the pigs became too cunning for them; they sometimes worked sixteen hours on end without food or rest; girls suspected of running away had irons riveted on their ankles, reaching by long links and rings to their hips, and in these they were compelled to walk to and from the mill, and to sleep.

⁵ The son of "parsley" Peel and the father of the Free Trader. He was himself an excellent master, beloved by his work-people, and is described as being to cotton-printing what Arkwright was to cotton-spinning.

of children. The working hours were not to exceed twelve, three hours were to be allowed for meals, instruction in reading, writing, and arithmetic was to be provided, the rooms were to be washed and ventilated, and there were other beneficial provisions. The act, however, remained a dead letter, as no adequate means were adopted to see that the provisions were carried out. From similar causes the acts of 1819 and 1820, passed under the same auspices, also failed. It was not till 1832 that the legislation became effective under the leadership of Lord Shaftesbury (then Lord Ashley) and Mr. Sadler.¹ Since that time the principles adopted have been extended to all kinds of employments, and men and women as well as children have benefited by the legislative restriction of the "quantity of labour" involved in their work. At present, in the United Kingdom, there is hardly any industry that is not subject to special or general regulations in favour of the workers. Mines and bake-houses, shipping and agriculture, as much as factories in the popular sense of the term, have felt the power of the law. Compulsory and free education, with penalties on those who deprive children of their opportunities, may be regarded as the latest development of the ineffective clause in Peel's Act of 1802.

§ 7. *The Poor Laws.* An examination of the long series of English Poor Laws is, perhaps, the most instructive and interesting example of the application of the historical method to economic problems. One great advantage of that method is, that it is a substitute for experiment, and nearly every conceivable plan of dealing with the poor has been tried in England at different times. That the poor never cease out of the land, and that the destruction of the poor is their poverty, were commonplaces in the wisdom of the ancients, and are being re-discovered by the present, as by every previous, generation. From the nature of the case, the condition of the poor

¹ Fielden's *Curse of the Factory System* appeared in 1836.

from age to age does not differ so much as that of the higher classes, so that the presumption is that, if a certain mode of treatment failed once, when fairly tried, it will always fail. The history of the English Poor Laws is, however, not merely a list of hap-hazard experiments, but is a remarkable instance of the growth and development of principles. All that I can attempt in the present section of this work is a re-statement of these principles, so far as they bear on the problems in hand, namely, the influence of legislation on the relations of employers and employed, and on the conditions of labour and the real reward for toil.¹

The history of the English Poor Laws may be divided into four periods,² according to the objects aimed at by the government. It may be observed, once for all, that in the development of any social institution,³ we must not expect that accentuation of principles which seems so natural *a priori*. The four periods are, no doubt, marked respectively with peculiar characteristics, but in the earlier periods we have later ideas present, though not predominant. From the earliest times, we find the poor divided into two great classes; namely, the poor in very deed, who, from various causes, were unable to earn a livelihood, and the able-bodied "sturdy rogues and vagabonds," who preferred idleness, diversified with crime, to regular work. In the *first* period, up to the great act of Eliza-

¹ The literature of the subject is very extensive. *The State of the Poor*, by Sir F. M. Eden (3 vols., 4to, 1797), is "the grand storehouse of information respecting the labouring classes of England." — McCulloch, *Literature of Political Economy*. *The History of the English Poor Law*, by Sir George Nicholls, 2 vols., 1854, is impartial and valuable, especially when compared with the same writer's histories of the Scotch and Irish Poor Laws. *The History of Vagrants and Vagrancy*, by C. R. Turner, is very full and interesting. Useful popular *résumés* are to be found in Fowle's *Poor Law* (English Citizen series: Macmillan) and Mackay's *English Poor*. Every one should read for himself the *Poor Law Commissioners' First Report of 1834* (re-printed 1885).

² Nicholls, Vol. I., p. 8.

³ Cf. Stubbs' *Constitutional History*, Preface.

beth (1601),¹ the care of the first class was left to the Church, to guilds, and to the charity of private persons; the efforts of the legislature were directed to the suppression of vagabondage, by severe penalties. Thus, the act of 1388² ordains that beggars able to work are to be put in gaol; and that of 1405 recounts that, the king being willing to use softer means, and considering, also, the expense of gaols, the penalty is to be three days and nights in the stocks, with bread and water. In 1531,³ the justices, mayors, and others are to search for the impotent poor, and give them certificates to beg within certain limits, and if an impotent beggar is found without a license, he is to be whipped, "if it shall seem, to the discretion of the high constable, that it be convenient so to punish such beggar — if not, the stocks; but if any person, being whole and mighty in body, and able to labour . . . begs . . . he is to be led to the next market town, or other place most convenient, tied to the end of a cart, and beaten with whips till his body be bloody by reason of such whipping, and made to return the most straight way to his native place —"; towns neglecting their duty were fined 3s. 4d. for an impotent beggar, and 6s. 8d. for a sturdy rogue. It is this statute, also, which contains the famous clause that scholars of the Universities of Oxford and Cambridge that go about begging, not being authorised under the seal of the said universities, shall be punished and ordered in the same way as strong beggars. Fortune tellers, also, were subject to a curious gradation of punishments, the penalties being: whipping, the pillory, first ear and second ear.

In 1535 the mayors and bailiffs were to find employment for the valiant rogues and sturdy vagabonds; funds were to be provided from voluntary church collections for this purpose, and for the relief of the impotent, but no one was to give except through the church, under a penalty of ten times the amount.

¹ 43 Eliz. c. 2.

² Cf. Eden, 11, c. 5.

³ 22 Hen. VIII., c. 12. See Nicholls, Vol. I., p. 115.

The dissolution of the smaller monasteries in 1536, and of the larger in 1539, increased the number of beggars, and the variety and intensity of their punishments. In the reign of Edward VI. (1547), the policy of suppression reached its climax. Loitering, idle wanderers, who refused to work, were to be branded with the letter V, and adjudged slaves for two years, to any one who cared to demand them; if they ran away within the time, they were branded on the cheek with the letter S, and adjudged slaves for life; for another attempt at escape, the penalty was the death of a felon. The children of wanderers, between the ages of 5 and 14, might be taken from their mothers, or other keepers, whether willing or not, and converted into slaves until the ages of 20 and 24, for female and male, respectively. It was found, however, two years later (1549), that these good and wholesome laws of the realm were not put in practice, because of the severity of some of them, and the softer measures of previous times were restored. This, as before, involved expenditure, and it is curious to trace the gradual struggle to the front, of compulsory assessment. If a person, able and willing to give, obstinately and frowardly refused, the parson and churchwardens were gently to exhort him, and, if he would not be so persuaded, then the bishop was to send for him to induce and persuade him by charitable means. But, although these acts were repeated during Mary's reign, and the first years of Elizabeth's, it appears that the gentle askings of the collectors, and the charitable ways and means of the bishops, failed to induce the people to contribute according to their means, so that (1562), if, after the persuasion of churchwardens and bishop, any person, of his froward or wilful mind, refused to give weekly to the relief of the poor, the bishop was to bind him under a penalty of £10 to appear at the next session, and here the justices were again to charitably and gently persuade and move the said obstinate person, to extend his charity towards the relief of the poor; but if he would not, then

they were to assess, tax, and limit upon the said obstinate person, what he was to pay, and cast him into prison until he paid it, arrears and all. Ten years later (1572), there is another relapse into savagedom, and a beggar was, for the first offence, to be grievously whipped, and burned through the gristle of his right ear, with an iron one inch in circumference; for the second, to be adjudged a felon; and for the third, to suffer death.

At last it was recognised that "severity of punishment loses its terrors in the presence of actual want, and that the first step towards putting down vagabondage and crime, was to provide against such an extremity of want as would leave no alternative between starvation and a breach of the law."¹

We thus arrive at the *second* period in which the great act of Elizabeth (1601)² is dominant. For a period of a century and a half this act was fairly administered, and, on the whole, worked well. The principles involved are (a) relief of the lame, impotent, old, and blind, and other poor people not being able to work; (b) setting to work the children of those not able to keep them, and also those who have no ordinary or daily trade of life to get their living by. The funds were provided by compulsory taxation of every inhabitant, "parson, vicar, and other"; but the mutual responsibility of parents and children, and grandparents and grandchildren, was admitted. Every parish was liable for its own poor.

The principle of local administration and assessment led at once to difficulties. The poor flocked to the parishes where they received the best treatment, and this abuse was met by the laws of settlement. The history of these laws is interesting, both for the development of principles and the evasion of provisions, but is too intricate to be here

¹ Nicholls, Vol. I., p. 193.

² The act is reprinted by Eden, Vol. III., Appendix, and a full abstract is given by Nicholls, Vol. I., p. 194. See for summary of development, p. 197.

followed out in detail.¹ The Act of 1691, however, is of importance, as it introduced, apparently by accident, a principle which led to most of the evils of the third period. The object was to prevent fraudulent overseers from giving relief as they thought fit, and hence extending the rates. Accordingly, a register was to be produced at the vestry meetings, and no one was to receive collection (*i.e.*, relief) except on the authority of one justice, or by order of the bench of justices, at quarter sessions. In about thirty years an act of George I. (1713) shows that a practice had sprung up of justices ordering relief to any applicants on frivolous pretences. Accordingly, it was enacted that parishes might singly, or in unions, provide work-houses for the reception of the poor, and that those who refused this test should not be entitled to parochial relief. The immediate effect was good, and the expenditure decreased,² but gradually the same abuses were revived.³

In the *third* period the relief of *poverty*, as well as positive destitution, from whatever cause it arose, became the ruling principle. The work-house test was abandoned, the work-houses becoming simply poor-houses for the aged, sick, and impotent. Gilbert's Act⁴ (1782) may be taken as containing the germs of the new system. The act ordained⁵ that the guardians of the poor were to provide for any who were able and willing to work, employment "suited to their capacity," and "near the place of their residence," and to cause them to be properly maintained and provided for until such employment was procured, and to receive the money earned by such work and to apply it to such maintenance as far as it would go, and make up the deficiency (if any), whilst if there happened to be an excess, it was to be given to the person who had earned it.

¹ Cf. Adam Smith, Bk. I., Ch. X.

² Eden, Vol. I., p. 285.

³ Cf. *Proposal for making an Effectual Provision for the Poor*, by Henry Fielding (1753), especially the Introduction.

⁴ Nicholls, Vol. II., pp. 137, 138.

⁵ Report, p. 9.

The same principle was carried out in the famous Berkshire bread-scale (1795), locally known as the "Speenhamland Act of Parliament," which was soon extensively adopted in other countries. According to this plan wages were to be regulated according to the price of bread, and the size of the families of the labourers.¹

The evils that ensued are graphically described in the Report of 1834. It is stated that in most of the districts examined, the funds which the 43d Elizabeth (1601) directed to be employed in setting to work children and persons capable of labour, but using no daily trade, were applied to purposes opposed to the letter, and still more to the spirit of that law, and destructive to the morals of the most numerous class and to the welfare of all.

The great abuse was the out-door relief afforded to the able-bodied on their own account, or on that of their families.² Sometimes this was given in kind: in this case it rarely took the form of food, less rarely of fuel, still less rarely of clothes, especially shoes, but its most usual form was providing house-room either totally or partially rent free. Out-door relief in the form of money was still more prevalent, and was effected by five different expedients. There was first relief without labour; thus able-bodied young men received in some places 3s. a week which they supplemented by depredations of various sorts. A more usual plan, however, was to give a somewhat larger sum and to make the applicants sit in a certain spot and do nothing, or attend a roll-call several times a

¹ A sentence is often quoted from Pitt's speech (12th Feb., 1796), in which he speaks of a labourer who has enriched his country with a number of children having a claim upon its assistance for its support. But the sample is a very unfair specimen of the argument. He goes on to say: "All this, however, is not enough if they did not engraft upon it resolutions to discourage relief where it was not wanted." On the whole, the speech is founded on the teaching of Adam Smith (especially on Settlement and Education). See the Report, Eden, Vol. III., Appendix, p. 308.

² Report, p. 12.

day, or some other contrivance was adopted which was supposed to make idleness neither amusing nor profitable. Next there was the allowance system. By this plan, those in receipt of the average wages of the district received in addition from the parish so much on account of their children, or according to the price of bread. The idea was to raise wages to some supposed fair standard of comfort. By the roundsman system the occupiers of property were to employ applicants for relief at wages fixed by the parish, the employer being paid out of the poor rate all he advanced beyond a certain sum. In one case recorded, a labourer received 2*d.* a day from his employer, and the rest from the parish. Sometimes the parish attempted directly the employment of labour. This was the principle of the act of Elizabeth, by which relief was to be given to none but the impotent except for work. But this mode of relief was practically the most unusual,¹ and when adopted was open to grave abuses. In some parishes it was found that the paupers had the notion that it was their right to be paid at a higher rate than independent labourers, and the right was recognised. In one place, whilst by hard work the independent labourer could earn 12*s.* a week, the pauper, for nominal work, obtained 16*s.*²

Lastly, there was the labour rate system, by which people were bound to employ and pay so many labourers, according to their property, or some other scale of assessment, whether they required the labour or not.³ The general conclusion of the report is, that "Out-door relief to the able-bodied contains in itself the elements of an almost indefinite extension, of an extension, in short, which may ultimately absorb the whole fund out of which it arises. The shame of application is soon blunted and destroyed; there is no test of real necessity, and there is scope for

¹ Report, p. 23.

² Report, p. 25.

³ Out-door relief to the impotent, it was found, was subject to much less abuse, and may be passed over.

endless robbery." One case is quoted which has become a classical example. In Cholesbury, the expense of maintaining the poor became so great, that the land-owners gave up their rents, the farmers their tenancies, and the clergyman his glebe and tithes.¹ The whole of the value of the land was swallowed up, and the rector advised that the land should be divided amongst the able-bodied paupers, and hoped that in two years, with the assistance of rates in aid from other parishes, the whole of the poor would be able and willing to support themselves, the aged and impotent excepted. In many other instances the poor rates had absorbed more than half of the rental, and were increasing rapidly.

But the effects of the system, even whilst funds were forthcoming, were the reverse of beneficial. Take first the case of the employers of labour.² In agriculture, the farmers felt the evil at once and directly; for, as the labourer felt that his wages depended not on the value of his labour, but on the number of his children, he had no incentive to industry, and the tendency was for skill, honesty, diligence, and other good qualities to wear out, and their places to be taken by the opposite vices. The report states that the labourers became, not merely unfit for services, but positively hostile to the farmers. There was never a better example of the truth that cheap labour is dear labour. The employer lost far more in efficiency than he gained by the rates in aid of wages.

In the manufacturing industries the effects were different. The use of machinery made it possible to ensure the requisite efficiency by supervision, especially, as large numbers of children were employed, and payment was often by piece-work. In this case, then, a manufactory worked by paupers could turn out goods cheaper than its rivals, and the result was to injure independent employers;

¹ Report, p. 40. The rates had risen, with a stationary population, from £10 in 1801 to £367 in 1832.

² Report, pp. 42, 43.

and it is said that whole branches of manufactures followed the course not of commerce but of pauperism.¹

But the severest sufferers were those for whose benefit the system was supposed to be introduced and perpetuated, namely, the labourers and their families.² In the first place, those who were not relieved — the independent labourers — suffered by want of employment and reduction of wages. The paupers had the first claim, and if a man had made any savings he was often unable to obtain work. This, then, was the greatest encouragement to reckless extravagance and improvidence. Secondly, those who were relieved soon became hopelessly degraded. Although the independent labourers earned less, their mode of life was in every case “strikingly distinguishable” from that of the pauper. The degradation that actually followed from the out-door relief system was intensified and extended by the bastardy laws which, in the language of the report, were “pre-eminently unwise.” The ostensible objects were to diminish the crime, and when it occurred, to indemnify the parish; but, both in their provisions and their administration, the laws were so curiously perverse, that the result was a high premium on unchastity, perjury, and extortion, and to quadruple the expense to the parish directly, and indirectly to augment it still more.³

As the immediate consequence of this Report, the Poor Law Amendment Act was passed (1834).⁴ This act dominates the *fourth* period, which is now apparently threatened with a speedy termination. “The act is avowedly based on the principle, that no one should be suffered to perish, through the want of what is necessary for sustaining life; but, at the same time, that if he be supported at the expense of the public, he must be content to receive such support on the terms deemed most consistent with the public welfare.”⁵ The objects aimed at may be

¹ Report, p. 49.

² Report, pp. 54, 55.

³ Report, pp. 99-107.

⁴ For summary, see Nicholls, Vol. II., p. 289.

⁵ Nicholls, Vol. II., p. 286.

most appropriately described in the language of an orthodox economist,¹ who was one of the principal framers of the measure: "First, to raise the labouring classes, that is to say, the bulk of the community from the idleness, improvidence, and degradation into which the maladministration of the laws for their relief has thrown them; and secondly, to immediately arrest the progress, and ultimately to diminish the amount of the pressure on the owners of lands and houses." Accordingly, the leading principles of the new law was to make the position of the pauper less eligible than that of the independent labourer. The best proof that these objects have been fairly realised is to be found in the fact, that the evils which the act was intended to remedy have been forgotten, and that an increase of expenditure on all kinds of out-door relief is now being strongly advocated. This also is my apology for the length of this section.

§ 8. *Combinations.* Adam Smith, in a well-known passage, has observed that, "masters are always and everywhere in a sort of tacit but constant and uniform combination not to raise the wages of labour above their actual rate."² At the time he wrote, open combinations of masters were permitted, but combinations of workmen were prohibited, and the penalties were soon after (1810) to be made more stringent. The prevention by law of labour combinations is of early origin, and Brentano's hypothesis, that combination is always the refuge of the weak against oppression, just as competition is the delight of the strong, is natural and suggestive, and receives from history abundant illustration, though not enough to establish an inductive proof. The outbreaks of slaves in antiquity, especially the great servile wars in the Roman provinces and the peasant revolts in the middle ages, as, for example, the rebellion of Wat Tyler in England (1381), and the Jacquerie in France (1358) are instances on a

¹ Senior, who next to Malthus is the best abused of the old school.

² Bk. I., Ch. VIII.

large scale of combinations of the weak against the strong. But the pregnant criticism of Rogers should be remembered: "The forces of society always make easy work of the outbreak, which despair sometimes instigates; the Jacquerie in France, the Peasants' War in Germany, were desperate efforts, ferocious reprisals but futile struggles."¹ Labour combinations, however, which take the form of armies, are exceptional and can only arise under exceptional conditions; they may serve to illustrate a principle; but the light is too strong for application to the ordinary relation of employer and employed. But, in the strictest sense of the term, combinations of labourers were soon resorted to, and at once provoked the hostility of the legislature and its counsellors, the masters. Thus, in the reign of Edward VI. an act (1548)² recites, that labourers and artificers have made confederacies and sworn mutual oaths, not only not to meddle with one another's work, but also to appoint how much work they should do in a day, and what hours and times they shall work; and accordingly, such combinations are declared illegal, and penalties similar to those applied to sturdy rogues are imposed, ascending from a fine, by way of the pillory, to the loss of both ears and infamy, "his dispositions and oath not to be credited at all times afterwards." Down to 1824 combinations³ were treated in the same spirit; it was not till the Trades Union Act of 1871 that the principles of the old legislation were abandoned, and some vestiges of their former operation remained till the Employers and Workmen Act of 1875.

As at present constituted, Trade Unions are "voluntary associations of workmen for mutual assistance and protection, and securing generally the most favourable conditions

¹ *Six Centuries*, p. 271. See, however, Cunningham, Vol. I., p. 359, note, on the difference between the cases.

² Nicholls, Vol. I., p. 137.

³ The History of the Combination Laws is well treated by G. Howell: *Conflicts of Labour and Capital*, Ch. II.

of labour. This is their primary and fundamental object, and includes all efforts to raise wages or prevent a reduction in wages; to diminish the hours of labour or resist attempts to increase the working hours; and to regulate all matters pertaining to methods of employment or discharge and modes of working. The sphere of their action extends to almost every detail connected with the labour of the workman and the well-being of his every-day life."¹ In the language adopted in the present work, the object of trade-unions is to diminish the quantity of labour, to increase the real reward, and to strengthen the power of the men compared with that of the masters in making bargains. With regard to each of these objects, which, as already shown, are always intimately connected, the individual labourer (in the ordinary meaning of the term), is as a rule at a disadvantage compared with his employer. The principal reason was well stated by Adam Smith: "A landlord, a farmer, a master manufacturer or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year, without employment. In the long run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate." In more modern phraseology labour, considered as a commodity, is perishable. "Labour will not keep; . . . to-day's labour cannot be sold after to-day, for to-morrow it will have ceased to exist; . . . extreme poverty virtually disables the labouring poor from bargaining; . . . it forbids them standing out, as all other sellers are accustomed to do, for their price."²

An adequate examination of the effect of trade-unions on the price of labour, considered as a commodity, would

¹ Howell, *op. cit.*, Ch. III. *The Objects, Aims, Constitution, and Government of Trade Unions.*

² Thornton, on Labour, Bk. II., Ch. I. *Labour and Capital in Debate.*

presuppose not only the theory of profits but the theory of value.¹ At the present stage, however, it may be useful to point out the danger, in this respect, of falling into the simple fallacy,—*post hoc ergo propter hoc*. In the first place, coincidently with the growth of trade-unions, there have been many causes at work of great importance that have tended to raise money-wages, especially the wages of skilled labour in which the unions are strongest. There have been, for example, immense improvements in mechanical appliances, a very great extension of foreign markets, and a rapid increase in the amount of capital naturally competing for labour. It would be just as reasonable to say, as was once very commonly and is still sometimes said, that the rise in the money-wages of labour was due entirely to the adoption of free trade. The truth is that trade-unionism is, at the best, only one element affecting wages. Secondly: there has been a great rise in the wages of various classes of labour in which unions do not exist at all, or have only a very limited power, as, for example, in the wages of domestic servants and agricultural labourers, the two most numerous classes of labour in England at the present time. Thirdly: if the question is to be considered in its purely monetary aspect, we must set the cost of strikes against the rise of wages obtained in any particular industry. This point was forcibly brought out by Thornton. In a strike, on account of wages, the amount in dispute is often not more than 5 per cent, and seldom more than 2 per cent, of the rate actually current.² Now it follows at once, from the rules of simple arithmetic, that if a strike aims at 10 per cent and lasts only 6 weeks the men will lose more, in those 6 weeks, than they will recover by the rise during a twelve-month.³ If the strike lasted 12 weeks it would take

¹ Cf. Marshall's *Economics of Industry*, Bk. VI., Ch. XIII.

² On *Labour*, p. 315 *seq.* Witness the great cotton strike which ended March 24, 1892, after 20 weeks.

³ Thus if wages were £1 a week, the labourer would lose £6; and if the

2 years, and if 18 weeks 3 years, and so on, to recoup the loss. Now, as a matter of fact, strikes have occurred which have lasted 38 weeks, 29 weeks, 26 weeks, and so on, and which, in the end, have not even been successful. Four such strikes are described by Thornton, and if they had been successful (and they were failures), it would have taken the men from 5 to 8 years' continuous employment at the extra rate of 10 per cent to have recovered the loss incurred. Of course these are extreme examples but they are also real; and in one case (at Preston), 15,000 operatives were engaged and in another, the London builders, 10,000. Nor is the direct loss of wages the only loss. There is the loss of capital directly involved, and the further loss in the contraction of enterprise, — for it is clear that, with a fear of strikes before their eyes, capitalists will not be so ready to increase their undertakings. And this indirect loss to capital would also in the end, and not very remotely, affect labour.

On the other hand, it must be remembered that the fear of a strike may induce employers to offer higher wages than they would do otherwise, and thus, on the whole, wages may rise somewhat at the expense of profits, though here again the direct effects on capital must be taken into consideration.

But the question is not simply a monetary question and a matter of balancing accounts; nor is the only object of trade-unions to operate on wages by strikes and rumours of strikes. They adopt, to a considerable extent, the principles of a mutual assurance society;¹ they give allowances to members out of work, and to their wives and families; they provide funds for sickness, accidents, old age, and burial; they extend their sympathy, often

strike was successful in raising wages to 22s. a week, the extra 2s. would only give £5 4s. in a year.

¹ Cf. Howell, p. 133 *sgg.* Five societies, between 1867 and 1886, spent £2,121,692 in support of those out of employment, quite irrespectively of other benefits, such as sick, funeral, superannuation, accidents, etc.

weighted with money, to kindred associations; they pay attention to the acts and reports of Parliament as affecting labour; and in many respects they carry on *mutatis mutandis* the work of the early guilds with the early guild spirit.

In one respect, however, in the opinion of the present writer, they are superior to their prototypes. "The first essential principle of the existence of a trades-union is," in the words of Mr. Howell, "that it shall be purely voluntary; upon no other basis could it legally or possibly exist. A man must have perfect liberty either to join or refrain from joining such a society, according to his taste or inclination."¹ So long as these principles are adhered to, trades-unionism is, in spite of its outward form, an agency by which the liberty of individuals is extended. Continental statesmen have rightly acknowledged that the English trades-unions are essentially opposed to socialism, and the words and deeds of the leaders of the unions are sufficient evidence. Recently, however, two influences have begun to operate, which, if allowed to become dominant, will destroy the trades-unions as they formerly destroyed the guilds. The first is, the attempt to make membership of the union a necessary qualification for obtaining employment in the corresponding industry, as shown, for example, in the refusal to work with non-unionists. So far, the unions tend to injure labour as a whole,—directly, by restraints imposed on the labourers, and indirectly, by restraints imposed on the employers. If such a policy were completely carried out, industry would naturally flee as it did from the restrictions of guilds and corporations. Secondly, there is an attempt to give to particular forms of labour a monopoly value, and to raise wages at the expense of the consumer. Here, again, the analogy of the old "fraternities in evil" is instructive. In some cases, indeed, the attempt is made to better this instruction, and to introduce the principle of the right of the strongest, re-

gardless of contracts or security. As already stated, it is in accordance with the system of natural liberty, to use labour combinations on a voluntary basis to secure the best terms that the state of the market will permit, both as regards the quantity of labour and the real reward; but it is contrary to that system, and to the real interests of the labourers, to try to convert a trade-union into a labour "syndicate" which is to model its actions on the worst methods of the stock-exchange. The labour in question may appear to be absolutely necessary to the welfare, and even to the existence, of the whole community, but syndicates in various "necessaries" much more easy of manipulation have failed in the long run, and labour is certainly not a good subject for a speculative operation; for wages can only be earned "in the long run." They cannot, like the profits of the stock-jobber, be crowded into one fortunate day or week. The ideal of a trade-union ought to be to make freedom of contract between labour and capital a reality; and the more this ideal is realised, and the more knowledge, which is the essence of freedom, is obtained on both sides as to the real meaning of the contract, so much the less need there will be of strikes and other forms of conflict.

§ 9. *Conclusion.* In bringing this long chapter to a close, I would repeat, that when we are dealing with actual laws and customs, it is impossible to bring out their objects and effects with the accurate precision of tendencies under hypothetical conditions. It is also necessary, at the risk of seeming tedious and pedantic, to give a certain amount of detail. History without detail is a mere expression of individual opinion.

CHAPTER XIII.

PROFITS.

§ 1. *Profits as Dependent on the Feelings of the Capitalist.* Profits, like wages, may be regarded from two points of view, which, adopting the same language as before, may be called subjective and objective, respectively. Considered on the subjective side, profits may be analysed into three elements, or, in other words, profits may be said to constitute the reward for three species of disutility, suffered or endured by the capitalist. Adopting the phraseology¹ which Mill has made classical, gross profits must afford a sufficient equivalent for abstinence, indemnity for risk, and remuneration for the labour and skill required for superintendence. Regarded in this way, profit consists of a three-fold reward for three kinds of disagreeable feelings, or, more technically, of three utilities obtained for three disutilities. If the rate of profits were just sufficient to call forth this effort and abstinence, then *prima facie*, the economic harmony of Bastiat and his followers would seem to be established. Unfortunately, however, profits must also be considered from the objective standpoint; and here, the analysis into three elements, gives very different results.

§ 2. *Profits as Dependent on the Cost of Labour.*² The share that falls to the capitalist of the joint product of labour and capital, is obviously dependent on the cost of labour. But, again, to adopt Mill's language, the cost

¹ Mill, Bk. II., Ch. IV., § 1. The description is derived from Senior.

² Mill, Bk. II., Ch. XV., § 7.

of labour is a function of three variables, and these variables are: the efficiency of labour, the real reward of the labourer, and the greater or less cost, at which the articles composing that real reward, can be produced or procured. It follows, at once, from this analysis, that profits may rise if labour becomes more efficient, or if real wages fall, or if the cost of the real wages is diminished, that is to say, profits may rise independently of the abstinence, the risk, or the toil, of the capitalist.

Accordingly, the harmony of the first analysis disappears, and once more an illustration is afforded of the danger of introducing ethical¹ elements into economic reasoning. Apart, however, from this ethical interpretation and supposed harmony, this first analysis is sufficiently correct, if we take it to mean that gross profits are resolvable into pure interest, insurance against risk and wages of management.

It will be found that these three elements depend upon different causes and conditions. Accordingly, it is necessary to discuss them separately, before any meaning can be properly attached to the most celebrated propositions regarding profits, namely, the tendency of profits to an equality, the necessity of a certain minimum, and the tendency of profits to reach this minimum.

§ 3. *Loan Interest.* Interest, in its original and simple form, may be considered as the price paid by the borrower to the lender, for the use of a thing for a time, the thing, or its equivalent, being returned at the end of the stated period. Historically, however, it is only in quite recent times that interest has come to be regarded as justifiable, and the word usury, which was formerly applied to all kinds of interest, still bears the taint of extortion. In the Tudor period, in the very acts of Parliament,² by which a certain rate of interest was made lawful, the legislature still expressed the pious opinion, that all usury was

¹ Cf. the criticism of Marx on the "abstinence" theory.

² 3 Henry VII., c. 5. 13 Eliz. c. 8.

'dampnable,' 'contrary to the law of God,' 'sin, and detestable,' and as late as 1624, in the conclusion of an act fixing interest at 8 per cent, we read: 'provided that no words in this law shall be construed or expounded to allow the practice of usury in point of religion or conscience.' The strength of mediæval opinion on the subject, is shown by the persistence of the sentiment, long after the practice had become general. The condemnation of usury — 'usury of money, usury of victuals, usury of anything that is lent upon usury' — was supported by an appeal to the Bible,¹ Aristotle, and the Christian Fathers. It must be carefully observed that the ancient and mediæval detestation of 'usury' applied to all forms of interest. The laws passed against usury were carefully framed to cover all kinds of interest, and to prevent all kinds of evasion. Two points are specially noteworthy, with reference to economic theory. In the first place, the 'shift, by selling merchandise to a person, and, within three months after, buying the same of him at a lesser price,'² was expressly condemned. The most recent theory of interest, elaborated with great learning and ingenuity, by Dr. Boehm-Bawerk,³ rests upon the idea that present goods are worth more than future goods, and that the difference is interest, that is to say, in this view the mere lapse of time is itself the basis of interest, whilst according to mediæval ideas, time, in itself, was naturally as barren as the precious metals.

Secondly, it is to be observed that a phrase constantly recurring is the 'forbearing of money,' as if it were recognised, that the essence of usury consists in 'waiting,'

¹ Deut. xxiii. 19, 20. The Jew might lend at interest to a stranger, but not to his brother. Before their expulsion from England, the Jews were permitted to lend at interest. See Madox, *Exchequer*, Ch. VII., one of the most curious chapters in history. The subject is also excellently handled by Mr. Joseph Jacobs in *The Jews of Angevin England*.

² 37 Henry VIII., c. 9.

³ *Capital and Interest*, and *The Positive Theory of Capital*, translated by W. Smart.

the term which Professor Marshall's authority has substituted for abstinence. It is true, as Dr. Cunningham¹ has well argued, that the Christian Fathers looked rather at the evil in the heart of the usurer than at the metaphysical characteristics of time and the natural barrenness of money, and that at a later date, the ecclesiastical courts introduced certain modifications in interpreting the law which allowed interest to be received in cases that were supposed to be conducive to the public good. But though casuistry may serve the purposes of legal fictions in loosening the rigidity of laws the method is liable to abuse. Thus we are told that to the devices fallen upon to defeat the laws against usury, the greatest part of the deeds now in use in England and Scotland² owe their original forms; and again that whilst the judges could not award interest for the money, since that would have been contrary to law, a moral evil and an oppression of the debtor, still upon the idea of damages, and the failure of the debtor in the performance they unmercifully decreed for double the sum borrowed. It is indeed remarkable that in all societies in which severe penalties have been imposed on usurers, still more severe penalties have been imposed upon debtors. The original and universal form of bankruptcy was slavery—the debtor compounded with his creditor by becoming his slave.

It is most interesting to compare in the mediæval period the ethics of usury with the ethics of wages. Labour was regarded as a duty; sloth was one of the seven deadly sins; and defrauding labourers of their wages was one of the sins that cry to Heaven for vengeance; the sentiment that labour is a duty still survives, and in most countries wages rank as a preferential claim.

So long as interest was regarded as sinful, and prohibited as far as possible by the law, it was natural that the rate

¹ *Usury*, p. 35.

² *Lectures on the Law of Scotland* (1793), by Walter Ross. Vol. I., p. 4.

charged on loans actually made, should be high enough to cover the disagreeableness or danger of the transaction. As a rule, under these circumstances the borrower was in extreme necessity,¹ and was entirely at the mercy of the lender. Accordingly, it was quite possible for interest to exceed the gross profits of ordinary trade. Even at present in Russia and India money is borrowed by peasant cultivators at rates far above the highest possible return to their capital and labour. It is, however, clear that such a state of things could not become general in a nation without national bankruptcy, and usury of this kind may be described as the gross profits of money-lending rather than interest proper.

Another consequence of the difficulties — natural and artificial — in the way of lending money at interest was that, side by side with these exorbitant rates, we find what is best described as a negative rate of interest; that is to say, people were willing to pay something to have their money kept in safety. Thus, in its early years, the Bank of Amsterdam instead of allowing interest on deposits practically made a charge, and the bank money was at a premium.²

§ 4. *Loan Interest and Profit Interest.* In the last section interest was considered according to the method of historical definition as primarily arising from a loan of some kind. But in the analysis of profits it is assumed that there is an element of interest independently of any transaction of the nature of a loan. This assumption, however, is not so simple as at first sight appears. The mere possession of capital in itself does not give interest except in the vague sense of the pleasure of contemplation or possession. In order that any form of capital may yield revenue it must either be used by the owner or lent to some one else. If it is lent, the yield is plainly interest; but if it is used by the owner, can we separate interest from wages of superintendence?

¹ Cf. Grote's *History of Greece*, Vol. III., p. 144.

² Adam Smith, Bk. IV., Ch. III.

The usual answer in the affirmative seems to involve two further assumptions: I. That if interest is not forthcoming in addition to the wages of management the accumulation of capital will be checked, that as a consequence, the diminished supply will eventually give capital a greater proportionate share in the joint product of capital and labour, and thus interest will again emerge. II. That if by lending any form of capital, the owner can obtain interest, he will not retain it for his own use unless he also obtains the same rate of interest. The first of these assumptions is the basis of the theory, that in any society there is a certain necessary minimum of profits (variable, it is true, according to different conditions); the second is the basis of the theory of the tendency of profits to equality — in both instances of course, so far as profits consist of interest, the consideration of other elements being for the present deferred.

§ 5. *The Minimum Rate of Interest as an Element of Profits.* Mill regarded the minimum rate of interest, considered as an element of profits, as an equivalent to the owner of capital for forbearing to consume it, which 'then and there' must constitute a sufficient motive to him to persist in his 'abstinence.' "How much will be required to form this equivalent depends on the comparative value placed in the given society upon the present and future."¹ On this view, the minimum rate of interest is just that rate which is sufficient to induce people to save, rather than to consume. It is, however, at once clear that this is a very variable rate, even in the same country, at the same time. Some accumulation would go on, even with negative interest, and Adam Smith has observed that a high rate of profit seems everywhere to destroy that parsimony which, in other circumstances, is natural to the character of the merchant.² Accordingly, we cannot

¹ Bk. II., Ch. XV., § 2.

² Bk. IV., Ch. VII. He is discussing the evils resulting from the high rate of profit due to the monopoly of the colonial trade, and this check

strictly speak of a particular minimum rate in any society, at any time, as necessary to accumulation in general; and if Adam Smith's opinion is well-founded, we cannot even say that a rise in the rate of interest will increase, or a fall check, accumulation. The truth is, as already explained at length in the first Book,¹ the growth of material capital depends upon a number of variables, of which the rate of interest is only one, and is, furthermore, indeterminate in its effect.

It is, however, quite a different thing to say that, in any industrial society in which competition is approximately perfect, a person who wishes to borrow on first-class security must pay a certain minimum rate, and that any one who is willing to lend can lend at this rate.² But the question still remains: when the left hand lends to the right, does a minimum rate of interest accrue? In other words, does the theory of equality of interest extend to interest as an element of profits? Or, more specifically, is loan interest equal to profit interest?

§ 6. *The Equality of Interest considered as an Element of Profits.* It follows from the general principles of industrial competition that, after making due allowance for any differential risk or trouble in employing capital in different ways, if one industry gives a net return, in the shape of interest above the general level, the attraction of capital will tend to lower the rate; and if it is below that level, the revulsion of capital will tend either to raise it, or to destroy the industry.

We may, then, accept the common theory that, so far as the interest element is concerned, the tendency of profits is to equality, if we mean by it that other things being the same rates above or below the average are unstable. It

to accumulation he regards as more fatal than all the other evils put together.

¹ Bk. I., Ch. XI.

² The problem of interest on loans as a question of value is discussed in Bk. III.

does not follow, however, that in the long run, or in any more definite period, the rates actually earned in different employments will correspond with this average. A very short period of prosperity may induce sufficient competition to cause a prolonged depression, and the converse is also possible though less probable.¹ It does not follow, either, that, from individual to individual, the rate will not vary, or that the degree of instability will not be very different in different cases, even in the same industry. It appears, then, on a very rough analysis, that the tendency to equality of profit-interest is a very different thing from the tendency to equality of loan-interest. The common fool will obtain, for forbearing to sell his consols, the same interest as the wisest financier, but people of equal wisdom who embark their capital in businesses of equal difficulty will by no means obtain equal interest on their money. The equality, as Mill said of profits generally, is an equality of expectation.

If, however, the equality of profit-interest in different employments is so imperfect, how can we say that, on the average, profit-interest tends to be equal to the loan-interest of the particular time and place? In a modern industrial society, the interest obtained from first-class securities, in which both the risk and the trouble of investment may be neglected, flows on in a constant stream; the rate varies, it is true, but comparatively slowly. For a long period the yield to consols has varied between very narrow limits, and the same is true of first-class mortgages and the like. Whatever the explanation may be, there is no question as to the fact.

Can we affirm that over a similar period there has been present in the profits of the great staple industries of the country a corresponding constant element? On the contrary, do we not rather expect the rate of profit to vary with the periodic inflations and depressions of trade? and

¹ A single day might ruin a great many banks, but the creation of new banks is difficult.

is it not usual to contrast the uncertainty of profits with the sweet simplicity of the three per cents?

§ 7. *The Inter-connection of Profit-interest and Loan-interest.* There is, however, undoubtedly a connection between the rate of interest attainable on loans and that element in the profits of industry which is usually looked upon as the pure interest on the capital employed. In the analysis of general wages we saw that we might consider the distribution (between wages and profits) of the joint product of labour and capital as depending ultimately on the reciprocal demand for the services of one another, that is to say, under a system of industrial competition. But the same idea may be expressed by saying that capital is lent to labour, that labour must return it, or its equivalent, to the owners at the end of a certain time, and that something must be paid by way of interest. To the owner of capital it is a matter of indifference whether it is lent to productive or unproductive consumers. And the analogy may be carried much further when, instead of assuming perfect competition, we look at the historical development of industry. Just as in early usury the necessities of the borrower gave undue power to the lender, so, also, in the early relations of labour to capital, the power of the latter was generally excessive.

The difficulties that are found in detecting the element of interest in profits, arise from the fact that the other two elements, until recently, were in general inextricably combined with it. The tendency of modern industry, however, is more and more to separate this so-called pure interest from the insurance against risk and the wages of superintendence. The owner of capital is being differentiated from the employer of labour, and the former alone receives interest.

§ 8. *Insurance against Risk.* "In all the different employments of stock," says Adam Smith, "the ordinary rate of profit varies, more or less, with the certainty or uncertainty of the returns. . . . It always rises, more or less,

with the risk. It does not, however, seem to rise in proportion to it, so as to compensate it completely. Bankruptcies are most frequent in the most hazardous trades." The insufficiency of the compensation is accounted for by the gambling spirit in human nature; but, making allowance for this, we may assume that the effect of industrial competition is, on the whole, to equalise the element of risk in different employments. The development of insurance societies, especially in modern times, has tended still further to make profits independent of particular risks. But, although the question is simple when we are considering the equality of profits in different industries in any given society, the same difficulty arises as in the case of interest, when we look upon "compensation for risk" as an element in general profits.

Just as interest is generally regarded as remuneration for abstinence, or for forbearing to consume, so insurance, as a part of gross profits, is supposed to be a reward for undergoing the danger of losing the capital. If the security is at all imperfect in the case of a loan, an additional charge is naturally made; and it may be similarly argued that when capital is lent to labour there is always some risk that the principle with interest will not be returned. Unlike a government, that may pledge its taxes, or a landowner, who may pledge his land, the labourer, as such, has nothing to pledge. In former times he pledged his body, and the creditor, in case of default, sold it alive or used it to "bait fish withal," according to his fancy. Under present conditions, whenever money is subscribed for any new industrial undertaking, however promising, in which the only security lies in the success of the undertaking, there is a considerable element of insurance; and, to some extent, in all industries that use borrowed capital the same influence is felt.

Most economists,¹ however, have considered that the element of risk operates still more generally. They em-

¹ *E.g.*, Mill, Bk. II., Ch. XV., § 2.

phasise the importance of security as affecting the accumulation of capital, and, accordingly, they argue that if in any society the security of property is endangered, a direct stimulus is given to immediate consumption. The conclusion is that people will not save unless tempted by a very high rate of compensation for risk. "The rate of profit," says Mill, with reference to the insecurity under Asiatic governments, "which persons of average dispositions will require to make them forego the immediate enjoyment of what they happen to possess, for the purpose of exposing it and themselves to these perils, must be very considerable." But it by no means follows that the rate of profit will rise in response to the feelings of the capitalist. His feelings may, indeed, diminish the supply if a high rate is not forthcoming; but demand must also be taken into account. Under a system of official and unofficial robbery and extortion there may be very little effectual demand. The desire to borrow may be very strong, but mere desire is not sufficient,—the will must be backed by ability. It is the same as in the case of a famine. It is said that in Eastern countries people may be dying by thousands of starvation without any appreciable effect on the price of food,—because their demand is not effectual. But, if they cannot buy for present payment, neither can they borrow for future payment. Again, to take a modern instance from highly developed societies, after a commercial crisis there is a general feeling of insecurity on the part of the owners of capital, but instead of a rise in the rate of profit there is a contraction of enterprise; the field of effectual demand is narrowed.

The general conclusion, then, appears to be that insecurity checks the accumulation of capital,¹ but it also fetters industry. Taking a broad view, there is less to divide between capital and labour, and, though labour may be compelled to take less, it does not follow that capital will obtain more. And, indeed, it would be against all experi-

¹ See Bk. I., Ch. XI.

ence to maintain that under a system of arbitrary and tyrannical government the general profits of industry must be high on account of the risk. Thus, we again see the danger of relying on a subjective analysis; even in compensation for risk, there is more to be considered than the feelings of the lender.

§ 9. *Wages of Superintendence.* Adam Smith, in a passage which has been too often overlooked, calls attention to the fluctuation in the rate of profit.¹ "It varies, not only from year to year, but from day to day, and almost from hour to hour." Later on, in maintaining that ordinary profits in the same neighbourhood in different industries are more nearly on an equality than the wages of different forms of labour, he points out that the apparent differences in the profits of different trades is generally a deception, arising from not always distinguishing what ought to be considered as wages from what ought to be considered as profit. It is thus indicated that the principal source of uncertainty and inequality in profit is to be found in the third element, namely, wages of superintendence. This position has been developed by recent writers² until it has become quite usual to consider the wages of superintendence as the wages given for the exercise of certain business powers. In old established industries which have felt the full force of competition, if allowance is made for interest on capital and for insurance against risk, the part left over as wages of superintendence is comparatively small. It may, indeed, often vanish entirely, and yet the industry continue to be carried on for a considerable time.³ This is accounted for by the fact that the only way to obtain interest on the capital sunk in the business and to prevent its deterioration is to go on working.

On the other hand, however, especially in new undertakings, the possession, or the command, of a certain

¹ Bk. I., Ch. IX.

² *E.g.*, Walker and Marshall.

³ *E.g.*, the Lancashire cotton manufacturers are said to have fallen into this state for several years past.

amount of capital is a necessary condition of obtaining the opportunity of exercising business power and obtaining wages of superintendence. With the development of credit and the democratising, as Bagehot called it, of capital, this restriction on competition becomes less and less, and wages of superintendence tend to conform to other kinds of wages. What is most requisite, is not so much material as personal capital, — the result of training and education, — but this applies also to other forms of wages ; and, after the long examination already given of wages, both general and relative, it seems unnecessary to notice this element in greater detail. I will only observe that, so far as profits can be reduced to wages, a reconciliation is effected between capital and labour. Most of the crude fallacies of socialism arise from neglecting the higher forms of labour, including that of the management of capital.

§ 10. *The Element of Chance in Profits.* There is a further element in profits, to which, in general, sufficient attention has not been paid. Led astray by supposed tendencies and harmonies, and by appeals to the long run, many economists have eliminated altogether what is, in some instances, the most important element in profits, namely, the reward for good fortune and audacity. It has been supposed that, on the average, in the long run, the risk will, so to speak, just effect its own insurance. In a stable society, with established methods of production, this tendency may be admitted ; but in progressive societies, and with revolutions in industry, the reward may far exceed the risk. The most striking case is afforded by the rapid development of new countries. A speculator who has the good luck (for, in general, there is more luck than skill) to hit upon the site of a future town has simply to sit still. But there are many other instances of *Conjecture*, as the Germans call it, and they naturally excite a good deal of envy on the part of the less fortunate. In my opinion, this envy is more natural than reasonable.

The possibility of obtaining these occasional large returns has always been one of the greatest incentives to enterprise; it has been the principal factor in spreading the Anglo-Saxon race over the world. At the same time, it must be admitted that the artificial monopolies of trusts and syndicates are on a different footing, and, also, that certain kinds of exceptional gain may be a good subject for exceptional taxation. The discussion, however, of these topics must be deferred, and, following Mill's example, I shall also postpone the consideration of the tendency of profits to a minimum.

CHAPTER XIV.

ECONOMIC RENT.

§ 1. *Ambiguity of the Term Rent.* "Rent," says Ricardo, "is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to a landlord."¹ He goes on to observe that the term is used in a still wider sense, as, for example, in the case of the price paid for cutting timber or for extracting minerals, in which it is plain that the price is paid for the commodities, and not for the use of the original and indestructible powers of the soil. And he might have given instances of still wider applications. Thus, as Madox² shows, "in ancient times, both in England and France, *Ferm* signified *Rent*," and the fee ferme which the towns paid to the king for their privileges was a perpetual rent. The word is still applied to the hire of many other things besides land, and, in French, any one who lives on the interest of his capital is a *rentier*, and *rente* means revenue. A recent writer,³ in a very able work, has contended that there is no essential difference between the rent of land and these other species of rents, and has endeavoured to reduce Ricardo's theory to mere verbalism.

That the theory calls attention to real causes, and that economic rent is not to be confounded with profits or in-

¹ *Principles*, Ch. II.

² *Firma Burgi*, p. 3.

³ The Duke of Argyll, *Unseen Foundations*, p. 35.

terest, is best seen from the following consideration: "It is found," says Ricardo, "that the laws which regulate the progress of rent are widely different from those which regulate the progress of profits, and seldom operate in the same direction. In all improved countries, that which is annually paid to the landlord, partaking of both characters, rent and profit, is sometimes kept stationary by the effects of opposing causes; at other times advances or recedes, as one or other of these causes preponderates."

As regards interest, speaking broadly, in progressive societies the tendency is to fall to a minimum, whilst the rent of land — especially of land for building — tends to rise. It is not asserted that under all conditions such is the case; it is sufficient that a fall in the rate of interest *pari passu* with a rise in rent has often been observed.

Stress, also, deserves to be laid on the phrase of Ricardo's to which most exception has been taken, namely, "the original and indestructible powers of the soil." As so often pointed out already, there are three great agents in production: Land (typical of nature), Labour, and Capital; and, corresponding to them, in distribution, we have three classes of revenue: Rent, Wages, and Profits. We have seen that economically the two latter are necessary conditions for the creation and continuance of the respective agents. If labour does not obtain a certain reward, it must perish; and if capital does not replace itself with some recompense, it will not be accumulated. Ethically, also, it is usual to observe that the labourer is worthy of his hire, and that the capitalist deserves something for his abstinence, risk, and trouble. But, so far as land and the gifts of nature are concerned, in their original state, they are independent of human effort; no doubt, to yield a revenue they must, in practice, be conjoined with the other two agents, but, logically, they are quite distinct. Economically, the peculiarity is that land may yield, for an indefinite period, an increasing income, whilst the owner does nothing; take, for example, the land on which London is built. At the

same time there is land that, comparatively, yields only a nominal rent. The ethics of ownership of land, as already explained,¹ is by no means so simple as the ethics of wages, or even of profits.

Seeing, then, that land is, in general, the most important item in the inventory of national wealth, and that there is this striking difference between the yield to land and the yield to most other forms of capital, a *prima facie* case is made out for giving special consideration to the rent of land. It will appear presently that some other forms of revenue are analogous to the rent of agricultural land, as defined by Ricardo, and it is convenient to apply the general term "economic rent" to all those cases where the analogy holds good. In the first place, however, for the sake of simplicity, we may begin with the economic rent of agricultural land. .

§ 2. *The Economic Rent of Agricultural Land in its First Form.* In the case of agricultural land, economic rent follows as a consequence from the law of diminishing returns,² and, as this law assumes two forms, so also does the theory of rent. The peculiar importance of the law in agriculture arises, in the *first* place, from the limited quantity and limited productiveness of land. If land were in the class of the free gifts of nature that are unlimited, it would yield no rent. And, historically, both in ancient and modern times, we have examples of land being superabundant.³ Thus, to the primitive tribal households, with their annual or frequent shifting of holdings, the land was economically as "free" as the air or the water; and in new colonies land can generally be obtained freely under the condition of cultivating it.

Secondly, it will be remembered that land is not uniform

¹ Cf. Bk. II., Ch. IV.

² See *supra*, Bk. I., Ch. X. The reader may be recommended to refer to this chapter in connection with the present.

³ Cf. the well-known sentence of Tacitus, describing the Germans: "Arva per annos mutant et superest ager." — *Germania*, XX.

in quality, and that the superior land is still more limited. As already explained, the superiority varies with the agricultural *régime*; but, at any particular time and place in general some land, for some reason or other, is considered superior to the rest.

Thirdly, at a very early stage land is appropriated¹; it may not be held as what would now be considered private property, but it is appropriated, at any rate, to the extent of bearing burdens and to the exclusion of intruders. One of the most ancient of sins was the removal of landmarks, and much of early religion is associated with the possession of land.

It follows, then, that if land is not uniform in quality, and if the superior land is not sufficient to support the population, recourse must be had to inferior soils. As soon as this occurs the produce is raised at different costs. The differential advantage of the superior land over the inferior gives rise to economic rent. It makes no difference, logically, whether the land is let or not; the economic rent, under these conditions, is always there. It is also plain that it will be just as profitable for a husbandman to pay something for the superior land as to obtain the inferior land rent-free. Accordingly, if the produce is sold for money and the expenses are also reckoned in money, the rent also may be stated in money.

We have seen, in this way, how rent arises; the next point to consider is, why it continues. It is simply because, under the general conditions of demand and supply, the inferior land must be cultivated in order that the supply may meet the demand. The shortness of supply raises the price, and the rise in price renders it profitable to resort to worse land. Accordingly, with demand unslackened, and the arts of production stationary, this worse land can be profitably cultivated on condition that the price remains high. This is the essential difference. In the typical case of manufactures, shortness of supply would also

¹ Cf. the Duke of Argyll, *op. cit.*

raise the price, but in this case the supply would eventually be increased at the same or at a decreasing cost.

It is easy to see now how rent is measured. So long as any land gives any exceptional profit, it will yield a rent, and it will also pay to go to inferior land, if there is any. At last, however, the land on the margin of cultivation is reached, the land which at the price current will only yield the ordinary rate of profit, and which no man will cultivate, if he has to pay a rent. The difference between the profits earned on superior land and the minimum rate on the margin measures the economic rent.

It must be carefully observed that, in the preceding exposition, no reference has been made to any particular unit of land. The theory is so far independent of the quantity of land. The vital consideration is, in the words of Ricardo, that "rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour," not from the employment of two equal quantities of land.

It follows at once that it is quite possible that all land should yield some rent, that is to say, economic rent in the strict sense. This point was admirably brought out by Adam Smith. It is sometimes argued that good land and bad land are so intermingled that there is always some land that would not pay rent if it were let by itself. But the assumption is always confusing and often erroneous. Wherever the conditions of demand and production are such that land yields any exceptional profit, that exceptional profit is rent. The consideration of this point naturally leads up to a statement of the theory of economic rent in its second form.

§ 3. *The Theory of Economic Rent in its Second Form.*

Let us assume now, for the sake of simplicity, that all the land of a country, or industrial area, is uniform in quality and equally advantageously situated. If it is limited in quantity it may still yield a rent, owing to the other form of the law of diminishing returns. The increased demand

for food, with the consequent rise in price, may render it possible to adopt a more intensive form of cultivation. But, as explained in the first book,¹ if the last doses of capital yield the ordinary rate of profit, the previous doses must yield more; and again, this exceptional profit constitutes rent. As before, unless the price remains high, it will not pay to work in these more expensive modes, therefore, if the supply is to be forthcoming, the price must be kept up, and consequently the first doses continue to yield rent. In this case, under the assumptions made, all the land yields a rent, and the same rent per acre.

This form of the theory of economic rent is not generally so readily grasped as the first form. The difficulty arises from the fact that in practice the separation of the doses of capital does not take place in the clear and distinct manner that the pure theory, especially in some kind of mathematical presentment, assumes. It is, however, none the less true that rent does arise in this way, and every farmer is constantly finding out that some mode of applying capital has reached the marginal limit. Very often farmers make mistakes, and apply capital that does not really yield even the ordinary returns. It follows in this case that, if they are to obtain the ordinary rate on the whole of their capital, to make good the loss on the last portions they must draw upon the gains of the first. But that would be to deprive the landowner of part of his economic rent. Accordingly, it is for the interest of the landowner that the application of capital should not be pushed too far. Of course, if the farmer is content with less than the ordinary rate of profit, he may apply more capital and be able to pay a higher rent in consequence. Such is the case with peasant cultivators, who are content with a moderate return in the form of wages.

It is worth observing, also, that if the owner of a large estate happened to be a good farmer and to have plenty of capital, it might pay him better to keep his farms in

¹ Bk. I., Ch. X.

his own hands. Suppose — which was once true — that farming profits are 10 per cent, that is to say, that a farmer will not take land unless his total capital employed gives that return. Now, by the theory under review, it is possible that if to a piece of land he applied £5000, it might yield 12 per cent, that is to say, £600. In that case he could pay a rent of £100, namely, the differential 2 per cent beyond the 10 per cent which he regards as a minimum. But it is possible that if he were to apply £10,000, on the whole he would obtain only 10 per cent, and consequently he could pay no rent.

The owner of the land, if an equally good farmer, would also, on the first £5000 applied, obtain 12 per cent profit or £600, but if he tried simply to invest the second £5000 on good security, he could not expect more than 4 per cent or £200. Thus, by devoting all his capital to his land, he would obtain 10 per cent on the whole, or £1000 a year in place of £800.

This is really a particular case of a general principle. Every trader, at least when trade is good, naturally employs all the capital he can in his own business, because in that he gets a greater return than by lending some of it; he gets, namely, the difference between profits and interest. In fact, one may go further and say that the natural tendency, as noted long ago by Bacon,¹ is for traders to borrow at the ordinary rate, so as to get more of this difference. Hence, a cultivating landowner might, under certain circumstances, advantageously borrow to extend his cultivation.

For practical purposes we must remember² that, in a country where land is extensively let, the owner, who happens to be a good farmer, may do well to sell his land in order to obtain on the purchase-money the high rate of profit in farming.

In general, as Ricardo was careful to point out, we have

¹ *Essay on Usury.*

² See above, Bk. II., Ch. VIII.; Bk. I., Ch. IX.

both forms of economic rent conjoined; that is to say, *pari passu* with the recourse to inferior land there is also the adoption of more expensive modes of cultivating the old land.

§ 4. *Economic Rent and Monopoly Rent.* It has been shown in the last section that all land might yield economic rent, even if the land were uniform in quality and there were no natural differential advantages; the rent arises from the differential profits of successive doses of capital. For the sake of logical completeness, however, we may go further and say that, even if the conditions of production were such that the returns to every dose of capital applied to land were precisely equal, economic rent might arise. All that is necessary is, that the land should be appropriated, and that the produce should sell so as to give more than ordinary profits. The competition of the various owners of land would prevent them from exacting a monopoly rent,¹ but the competition of farmers would secure to them any differential profit obtained from the sale of the produce. It will be observed, however, that in this case also we find the same elements as before; the land is considered as a gift of nature, but limited in quantity and appropriated; there is a differential profit; and this differential profit is, other things remaining the same, permanent.

At the same time, economic rent even of this kind, which may be called a simple scarcity rent, and *a fortiori* other kinds, must be distinguished from monopoly rent. The essence of monopoly, as before observed, is not limitation but absence of competition.

If all the land of a country belonged to the same owner, he might exact a charge as a condition precedent to any use of the land. Such a case would arise, for example, if government, in a new country where land was abundant, compelled every settler to pay a certain rent. If, further, it excluded foreign competition, such a rent might rise to

¹ See next section.

a great height. It would in reality partake of the nature of a tax; and it might in any concrete case be blended with strictly economic rent just as this again is blended with profit rent. If the cultivators paid the whole gross rental with which the land was burdened to government, it would be difficult practically to distinguish the three elements, but theoretically the distinction is clear and important.

A similar difficulty arises in connection with other variations of economic rent as will be seen presently.

§ 5. *Other Forms of Economic Rent.* Next to agricultural land, we may notice the rent of building land. Here the purely economic rent must be considered as the differential price paid for superior advantage of situation. The law again assumes two forms; recourse may be made to inferior land or the better land may be used for higher buildings. We may assume in a simple statement of the theory that the last site occupied and the last story built, are on the margin and pay no economic rent, that is to say that they contribute nothing beyond ordinary profits. As before, also, we shall probably have a blending of economic, with monopoly and profit, rents. What seems to be part of the ground rent pure and simple, may be payment for roads, drainage, etc., or it may be a tax that the occupier cannot transfer.

The rent of mines is generally partly of the nature of economic rent. If the demand for the minerals increases and the price rises, people will resort to worse mines and to more expensive methods. The gross rental of any mine besides the three elements just examined will be partly a payment, as Ricardo pointed out, for the produce itself, and not for the mere use of the mine. A similar element is found in all natural sources that are capable of exhaustion: *e.g.*, forests, fisheries, hunting grounds, mineral springs. So far as they are renewed by nature they yield under certain conditions an economic rental, but so far as the renewal requires the industry of man, what appears as rent is really profits or wages.

It remains to add, that if land (as typical of natural agents) can be put to alternative uses, the landowner will let it for that purpose which yields the highest net rent. This again will depend on various conditions of demand and supply. Thus under the old laws in England there were oscillations between arable and pasture, and such oscillations must constantly occur to a greater or less extent. If, then, people require land already let for one purpose, *e.g.*, corn, for something different, *e.g.*, to grow tobacco, they must pay at least, the economic rent formerly yielded. But the more land is used for certain things, the less is left for other things. This is especially true of land the advantages of which are rather of a general than a special character. Accordingly, as regards any particular product, the necessity of resorting to inferior land is sooner felt.

The full consideration of these topics must be deferred until the theory of value has been explained in the next book; as also, the precise connection between rent and price. At present, we are concerned mainly with qualitative distinctions, and they are not yet exhausted.

§ 6. *Of Analogies to Economic Rent and of Quasi-rent.*
So far we have confined the term economic rent to cases in which the limitation of the superior source is supposed to be absolute, owing in general, to certain natural qualities. But we may get absolute limitation of anything for a certain period, and, in the meantime, some producers may obtain differential profits. Thus suppose that there is suddenly a great increase in the price of some commodity which requires, for its production in the best and cheapest mode, expensive and durable machinery. It may well happen that until this can be obtained, other inferior modes of production may be carried on, *e.g.*, the use of manual labour in place of machinery. In this case so long as the price remained high, and enough of the better machinery was not forthcoming, the owners of the machinery in use would obtain differential profits. To

profits of this kind, Professor Marshall has applied the term *quasi-rent*, and he has made a very extensive application of his theory.

The question is, whether the resemblances outweigh the differences to such an extent as to justify the use of the term rent in this sense. I am inclined to think they do not, and that even with the constant prefix *quasi* the new term is misleading. It is true that the analogy was pointed out by Ricardo, and that he, too, speaks of the rent of machinery under certain conditions,¹ and he ought to be considered an authority on the theory that bears his name. But the case he takes is not only hypothetical but intentionally the reverse of the truth; he is illustrating, as he so often does, by contrast. He is trying to show that the rent paid for land cannot be looked on as a surplus yielded by nature like so much manna without any labour. Rent, he affirms, arises not from the generosity, but from the niggardliness of nature. "If the surplus produce which land affords in the form of rent be an advantage, it is desirable that every year the machinery newly constructed should be less efficient than the old, as that would undoubtedly give a greater exchangeable value to the goods manufactured not only by that machinery, but by all the other machinery in the kingdom; and a rent would be paid to all those who promised the most productive machinery."

To bring the matter to an issue it may be well to recapitulate the conceptions that are fundamental in the economic rent of land in the strict or narrow sense. (1) Rent in this sense is paid for the use of those qualities of land that are not created by labour and capital, and which cannot be increased by human industry — in the words of Ricardo the *original and indestructible powers* of the soil. It was this element Adam Smith had in view when he said that "the rent of land considered as the price paid

¹ P. 39, McCulloch's edition. See, also, p. 37 for an application of marginal cost to all valuable things including manufactures.

for the use of land is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out on the improvement of the land or to what he can afford to take, but to what the farmer can afford to give.”¹

(2) In the second place, however, we find that the conception of *differential advantage* is equally fundamental. Considered as an instrument of production land is of different qualities:—there are, for example, always the differences of situation. It follows then, that if the worst land in use yields a nominal rent (or no rent) the superior kinds of land yield a substantial surplus. A man applying a certain amount of labour and capital to one piece of land can only just make it pay, whilst if he applies the same amount to another piece of land there is an excess of profits. This is the differential element in economic rent.

(3) Although the land itself cannot be increased it may be used to a greater and greater degree. If, owing to an increased demand, there is a rise in the price of its produce, the exceptional profit will lead to an increase in the supply, but the supply can only be obtained at an increasing cost; that is to say, other things remaining the same, the law of diminishing return comes into operation. So long, then, as the demand continues *the price must remain* high enough to compensate for these inferior methods of production.

In brief, then, economic rent is paid for something not made by hands; it is in all cases a differential profit; and this differential profit, other things remaining the same, is permanent.

In *quasi-rent*, however, as I understand it, the essential condition is that *for a time* the instruments of production cannot be increased in response to an increase in demand and rise in price, and consequently the possessors of the old instruments obtain for a time a differential profit.

¹ Bk. I., Ch. XI. He should have said ‘scarcity’ instead of ‘monopoly,’ but his meaning is clear.

Thus, of the three elements in economic rent, only one is present, for the quasi-rent is paid for the work of man and is not permanent; on the contrary, the supply of the instruments of production will be increased as fast as possible and the quasi-rent will dwindle in proportion.

Pushed to its logical extreme, the doctrine of quasi-rent amounts to saying that the difference between the market price of anything and its normal price is an unstable profit, which it will take a longer or shorter time to redress. The subject will again call for discussion in the theory of value in the next book. In the meantime, I may observe that in the case of land itself, it takes time to adjust the cultivation, either extensively or intensively to an increased demand: therefore, during this time, more than the normal economic rent will be paid for the *natural* qualities, and this difference will be a quasi-rent. In this case, at any rate, the advantage of the analogy seems doubtful. On the whole, in my opinion, quasi-rent is a species of *Conjunctur* profits.

To prevent misunderstanding, I must remind the reader that so far my difference with Professor Marshall is mainly verbal, or at most, it is a question of classification and analogy. Such questions, however, often have important consequences.

§ 7. *The Progress of Economic Rent.* I propose to take up at a later stage, the consideration of the effects of industrial progress on rent, but as in the preceding sections I have followed, for the purpose of clear exposition, the hypothetical description of Ricardo, a word of criticism and explanation seems necessary. Ricardo, under the influence of his time, assumes that there is a constant tendency for economic rent to rise, owing to the constant increase of population and the resort to inferior lands or more expensive modes of production. That is to say, it is supposed that population first increases, that more is produced at a greater cost and that, therefore, rents rise. We find that this does actually occur in some cases when

the population is mainly rural and engaged for the most part in agriculture. But first, it must be remarked that such an increase of population is generally against the interest of the landowner, since minute subdivision tends to make rents disappear and to increase poor rates in some form. Secondly, when an increase of population has tended to raise rents, it has generally been an increase of the town population as explained by Adam Smith, in the chapter, entitled: "How the Commerce of Towns contributed to the improvement of the country."¹ Thirdly, we find historically, that, in general, it is not the increase of population that makes an extension of the margin inevitable, but that improvements in cultivation render the increase of population possible. Farmers learn to cultivate inferior land with advantage and to apply more capital to the better land. That part of the increased rent which is due entirely to improvements, is of course, profit rent, but there may be at the same time, a rise in economic rent, and, in fact, economic rent may be steadily rising, although the price of produce is steadily falling.²

§ 8. *Conclusion.* A point has now been reached in the treatment of the laws of the distribution of wealth, at which it becomes necessary to consider in the words of Mill, the instrumentality by which, in civilised societies, that distribution is, for the most part, effected: the machinery of exchange and price. It is true that to some extent, the theory of value has been anticipated, especially in the present chapter, but it has not been made fundamental. My object has been, instead of assuming simply that exchange is the principal agency in distribution in the highest modern civilisations, to indicate the gradual development in the force of this principle and the gradual suppression and extrusion of other principles. The gen-

¹ Bk. IV., Ch. IV.

² In the same way there might be a rise in ground rents, whilst the gross rental (that is, including the building profit) was falling. The problem, however, is one of value.

eral conclusion is, that the increasing complexity of the processes of production instead of calling forth increased control on the part of the state, has diminished that control relatively, if not absolutely; it has made voluntary agreement the ruling force of the whole system. The millions of contracts of millions of individuals in the body politic, may be compared to the cells of which the human body is built up, and which perform their functions unobserved and uncontrolled by the reason: the reason may indeed assist in the prevention or cure of disorders to some extent, and so, also, may the state; but if compulsion is to take the place of freedom, the present industrial system of production must fall to pieces. The position, however, is too important to be passed over with an illustration which may be misleading; in the concluding chapter of this book, I propose to apply the results so far obtained, to test some prominent forms of economic Utopias.

APPENDIX TO CH. XIV.

The following is a reprint of Ch. VIII. of my book, *Tenant's Gain not Landlord's Loss*, written in 1883.

THE CAUSES WHICH DETERMINE THE FAIR RENT OF LAND.

"The rent of land corresponds to the price of goods, but doubtless was infinitely slower in conforming to economical law, since the impression of a brotherhood in the ownership of land still survived when goods had long since become the subject of individual property. . . . What is sometimes called the feudal feeling has much in common with the old feeling of brotherhood, which forbade hard bargains, though, like much else, it has passed from the collective community to the modern representative of its autocratic chieftain." — *Village Communities*. SIR HENRY S. MAINE.

WHATEVER opinion is held concerning the theoretical value of Ricardo's doctrine of Rent, it must, I think, be admitted that it is too abstract to be of practical utility. The rents which should be paid in Great Britain depend on a number of variable causes, which it is impossible to bring in merely as modifications of the law of diminishing returns. These causes fall naturally into three groups, according as they affect (a) the amount of produce, (b) the price of that produce, and (c) the expenses of production.

(a) *Causes affecting the amount of the produce.*—The recent agricultural depression has made abundantly clear that over the period of the average duration of a lease the most important factor in determining the amount of the produce is the state of the seasons, and it seems equally clear that even nineteen years is not sufficiently long to ensure an "average" crop. No one who entered on a lease ten years ago could have foreseen the seasons which were to follow, and but for the natural persistence of good old customs, the lease system would have received its death-blow. Next in importance to the seasons, as affecting the amount of the produce, is the security for the investment of capital by the tenant. Even that extent of security afforded by a nineteen-years' lease has made Scotch farming, in the opinion of the best authorities, the most productive in the world. The advantage of such security is shown as much by the faults as by the merits of the

lease system. It is well known that as the lease approaches its close the farmer, in the natural and undisguised endeavour to get back as much of his capital as possible, takes so much out of the land that for some years after the yield is considerably reduced. The extraordinary improvements effected by peasant proprietors must also be ascribed to the security afforded by ownership.

Another cause of primary importance in determining the amount of the produce is the energy and skill of the farmer.¹ Perhaps the best illustration of this is to be found in the fact that large estates farmed under a system of delegated management are not nearly so productive as when let to tenant farmers. There is nothing a large proprietor dislikes so much as having farms thrown on his hands. Again, it has often been asserted that there is at present a good opening for Scotch farmers in the Midlands of England, on farms which have been abandoned by the less skilful Southerner. Agriculture, too, is rapidly becoming more dependent on science and technical training. A farmer, for example, who does not understand the composition of the artificial manures he uses, and who does not know, except by hearsay, the effect of the different ingredients, cannot obtain so much from his land as the man who has carefully studied these matters, and it would be easy to extend the list of scientific requirements. In connection with agricultural skill, "freedom of cropping" ought to be mentioned, taking the term in its widest sense; for there can be no doubt that in many cases land is less productive than it might be, owing to restrictions placed on the enterprise of the farmer as regards the kind of crop. The efficiency of the labourers must also operate largely, and it appears from the Report of the Agricultural Commission that farmers have suffered from the deterioration of agricultural labour. This may be easily accounted for by the increasing emigration of the better members of that class, owing to the higher rate of wages and greater chance of success in manufacturing industries. Another illustration is afforded by the slovenly work performed under the old system of poor relief. In some cases production is checked by want of capital on the part of the tenant, and this is one of the principal arguments against the laws of distress and hypothec. It is said that the landlord, knowing himself to be secure, takes a tenant without sufficient capital, and the tenant is unable to borrow, owing to the preferential claim of the landlord. Again, it can hardly be doubted that the want of capital is one of the chief causes of the comparative unproductiveness of Irish agriculture.

(b) *Causes affecting the price of the produce.* — The second group of causes determining rent consists of those which affect the prices

¹ An Aberdonian, it is said, can pay 30 per cent more rent for his land than the average British farmer could afford.

obtained for the produce. Changes in price may occur either owing to some change in the standard of value, or to changes in the demand and supply or in the conditions of production, of agricultural commodities. It is unnecessary at this point to enumerate the various causes which may affect prices generally—the rate of production of the precious metals, the economies in their use, the expansion or contraction of trade, changes in the currency of nations, etc.—but it may be asserted with some confidence that the course of general prices for the next nineteen years is as uncertain and indeterminate as the course of the seasons. It has been estimated that in England 99½ per cent of commercial transactions are completed without the intervention of money, and much further economy in the use of bullion seems hardly possible. Yet, at the same time, this gigantic credit system has for its foundation the ½ per cent of bullion; if a few millions were withdrawn from the Bank of England, the whole structure would totter or collapse. Whilst this is the case in England and in the more populous and civilised parts of America, in the Western States, on the other hand, there is an increasing demand for bullion. It is possible that America, if its trade and population increase as rapidly as they have done during this century, may for the future absorb gold as steadily as India does silver. In the sixteenth century English agriculture was seriously affected by the amount of treasure brought from the New World; the general rise in prices consequent on the increase of the precious metals began with those commodities which were most marketable, and only slowly extended over the articles which did not naturally find their way into the general markets of the country. It is quite possible that the absorption of the precious metals by America and our Colonies may lead to results of a converse kind. If a general fall of prices occurs before the end of the century, the commodities first affected will, no doubt, be manufactures: but wages tend more and more to follow the course of prices in manufacturing industries, and a general fall in wages will immediately lead to a fall in the price of agricultural luxuries (meat, etc.). If such an event occurs, the farmer obviously cannot at once recoup himself by the diminished expenses of labour. It is sometimes assumed that any cause which affects prices in general makes no difference in relative values, and it may be supposed that the farmer will gain with one hand what he loses with the other. But although the assumption is correct when equilibrium has been attained, the passage from one level of prices to another is, as a matter of fact, accompanied by very great disturbances of relative values. Many more arguments might be brought forward in support of the contention that for nineteen, or even for ten years the course of general prices is indeterminate, and that a change in general prices will

disturb the relative values of agricultural produce; but enough has been said to illustrate the extreme uncertainty of the prices the farmer will obtain, even when we take into account only the causes which affect the value of commodities in general. But this uncertainty becomes still greater when we take into consideration the causes which affect agricultural prices specially. As far as corn is concerned, it may be maintained that its price will for many years be determined by its cost of production in America or our Colonies. The supplies we receive from abroad form such a large proportion of the total amount consumed (about one-half), that any falling-off in the importations would be immediately followed by a rise in price. It will be remembered that on the outbreak of the war between Turkey and Russia the price of the quartern loaf was raised one penny on account of the anticipated check to the Russian trade, and it is noteworthy that, in spite of the great deficiency of the home harvests during the recent depression, the price of corn was not affected, owing to the enormous supplies from America. It may be anticipated that, in spite of the rapid growth of population in the New World and the Colonies, a long period must elapse before the point of diminishing return is reached. There are still vast tracts of country to be brought under the plough, and when all the land has been put under cultivation, it has still to be subjected to the serious operation of high farming, in place of the "tickling" practised at present. As soon as high farming becomes profitable, the settlers on the new lands can avail themselves of all the arts of the Old World. There can be but little doubt then that for a considerable period the cost of production abroad will determine the price of corn in this country. But whether this cost of production is likely to rise or fall can hardly be conjectured. The cost of transport will probably diminish, and the rate of profit may possibly fall; but, on the other hand, the cost of labour may rise, and, when the virgin soil is exhausted, manures must be used. Again, if America adopts free trade, an enormous stimulus will be given to agriculture, and a still further fall in the price of corn ensue, for free trade may be expected to lower the price of corn in America in the same way as it lowered the price of manufactures in our own country. The prices of meat and dairy produce, in so far as independent of the price of corn, do not seem at present to be quite so much under the influence of foreign competition. Apart from the difficulties of transport the quality of the article has to be considered, and as far as the better qualities are concerned competition is not so much to be feared. Still there can be no doubt that the foreign supply will increase, and it is quite possible that English mutton may follow the example of English wool. It is clear, then, that the kind of crop is an important element in determining rent.

(c) *Causes affecting the expenses of production.* — The third group of causes which operate on rent consists of the factors which enter into the expenses of production. One of the most important is the cost of labour. It may, I think, be anticipated that the rate of agricultural wages will for some time continue to rise relatively to other wages. The spread of education will inevitably increase the number of emigrants, and we may expect the best agricultural labourers to go to the Colonies, where their peculiar qualifications are most in request. Hence, probably, labour will both become dearer and less efficient; and the report of the late Commission shows that these effects have already commenced.

Immigration to the towns operates as powerfully in the same direction as emigration from the country. It has long been a subject of remark, that the rate of agricultural wages is always higher in the neighbourhood of large towns, and the conjecture may be hazarded, that with increased knowledge and increased facilities of communication, agricultural wages may at no distant date rank higher than the rate in most manufactures. If such an event takes place, no doubt encouragement will be given to substitute machinery, but such machinery will require greater skill in its manipulation, and wages may rise still higher. The other elements of expense involve technical rather than economic considerations, but perhaps the opinion may be expressed that the cost of machinery will tend to fall, and the price of manures to rise.

There is, however, still one element affecting rent to be taken into account, which, logically, should be classed with expenses, and that is — farmers' profits. Under a system of competition rents, where farming is, like any other business, carried on for profit, the usual rate of profit is as much part of the expenses as the usual rate of wages. If education and increased facilities of communication tend to increase the emigration of labour, still more will they increase the emigration of the farmer and his capital. The number of British farmers who have emigrated during the last ten years is very considerable, and would, no doubt, have been greatly increased, but for the system of leases. Landlords cannot expect farmers to go on cultivating their land if they are to obtain little or no profit. In determining a "fair" rent, then, the rate of profit is an important factor.

It follows, from the variety of causes considered, and the number might have been easily increased, that a "fair" rent is a surplus which is uncertain and indeterminate. The popular notion, probably founded on the tradition of customary rents, and in England on the fact that land was until recently generally undervalued, that for every farm there is a certain "natural" rent, which a "practical" man can easily determine from the quality of the soil, the state of the drains,

etc., must be abandoned. The relative value of two farms, as instruments of production, the practical men may, no doubt, readily determine, but the fair letting value, for a long term of years, requires many more, and more complex considerations to be taken into account. The practical man certainly shot very wide of the mark ten years ago. The persistence of the notion is very well illustrated by the fact that the proposal to fix rents in Ireland for a term of *fifteen* years met with very little opposition. It is to be hoped, on political and social grounds, that the Commissioners have left a considerable margin in favour of the tenant.

As an illustration of the difficulty of determining rent, I give a table from the Appendix to Sir James Caird's *Landed Interest*, which shows the average rent of cultivated land per acre at three different periods, and some of the principal elements which affect rent.

TABLE

Showing the Rent of Cultivated Land, the Price of Provisions, the Wages of the Agricultural Labourer, the Rent of Cottages, and the average Produce of Wheat, in three periods, during more than a hundred years in England.

	1770.	1850.	1878.
	<i>s. d.</i>	<i>s. d.</i>	<i>s. d.</i>
Rent of Cultivated Land per acre . . .	13 0	27 0	30 0
Price of Bread per lb.	0 1½	0 1½	0 1½
Price of Meat per lb.	0 3½	0 5	0 9
Price of Butter per lb.	0 6	1 0	1 8
Agricultural Labourer's Wages per week.	7 3	9 7	14 0
Rent of Labourer's Cottage per week .	0 8	1 5	2 0
	Bushels.	Bushels.	Bushels.
Produce of Wheat per acre in bushels .	23	26½	28

Now how can the fact that between 1770 and 1878 rent was more than doubled be explained? The yield per acre has indeed increased, but *per contra*, the rate of wages has been almost doubled; again, the price of bread is the same, whilst meat and butter have risen to nearly three times their former value. As far as the facts in the table indicate, the causes of the rise in rent appear to be the increased

productiveness of the soil, and the great rise in the price of other kinds of produce than corn. But the problem could not be fully solved without bringing in other elements, *e.g.*, the relative amounts of taxation incident on land, the rates of profit current at the two periods, the cost of carriage of materials, and products, etc. We should further have to take into account the course of seasons in the years preceding, and the course of prices. It would have to be considered also, how far in the former period rents were customary, and how far in the latter they were really competition rents. And after making all allowances, it would be well to compare the corresponding rise in Belgium, and especially in France, where there has been no increase in population.

CHAPTER XV.

ECONOMIC HISTORY AND ECONOMIC UTOPIAS.

§ 1. *The Reality of Economic History.* Economic History is a history of certain kinds of facts, and not of certain kinds of opinions and theories, except in so far as these last serve to account for and explain the facts. The precise limits of its sphere as distinguished from the history of law, religion, art, and morality will vary partly with the mode of treatment adopted, and partly with the period and country under consideration; just as the treatment of the principles of political economy must be tinged to some extent with the personality of the author and the spirit of his time. As in other forms of history and in other sciences, the evidence is always more or less incomplete, and consequently a description is liable to be corrected and a judgment to be upset when new facts are brought to light, or stronger minds and wider grasp are devoted to the subject. The central position, however, is perfectly clear: economic history deals with the actual conditions of the past. It follows at once, that, although, as in geology, guiding hypotheses are necessary, and sometimes the reasoning is pushed far from the substratum of facts, still there must be a constant and arduous search for fresh evidence. The principal danger is to accept too readily any testimony which appears to be favourable to pre-conceived opinions. This danger receives a very vivid illustration from the numerous examples of the reconstruction of primitive societies *a priori*. If with our present knowledge we turn to some of the histories of this kind written in the

eighteenth century, we discover not only that they are incomplete, but that they are in general the exact opposite of the truth. In this liability to error, economic history is, of course, not peculiar; primitive religions and languages, to take but two examples, have in our own days been built upon equally imaginary foundations. The so-called natural sciences also have suffered in the same way; geology has been warped by the religion, astronomy by the imagination, and even mathematics by the philosophy¹ of the investigator. Nor must we suppose that the mere recognition of the danger and the attempt to apply a better method is sufficient to secure us from similar errors. The foundation of all reasoning is the discovery of differences and resemblances, and the first comparison we naturally make is with our own opinions and desires, and an apparent agreement is readily accepted. Yet, when all is said, and we have humbled ourselves to the earth, the truth stands out that the sciences are progressive; facts have been added to facts, and theories have grown and decayed accordingly; and in no case has the advance been more marked in recent times than in the historical sciences that deal with the earlier stages of society.

§ 2. *The Ideality of Economic Utopias.* If, as shown in the last section, we are liable to reconstruct the past by the simple plan of taking away from, and adding to, the present conditions of society how much more liable are we to this danger where our object is to set up an ideal future. Accordingly it will be found that the usual method of constructing a utopia is to magnify what the author approves, and to destroy what he disapproves in our actual social arrangements, the gaps in the structure being filled up and the additions supplied in unison with the central idea. In some famous cases it has long been doubted whether the utopia was intended as a satire upon contemporaries or as a guide to posterity.

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At first sight it might be thought that since utopias are

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made so easily they would present great variety, but it is a truism that the imagination has very limited powers of construction compared with nature; on the one side, we have a short span of life and a small brain, and on the other eternity and the universe. On the surface, indeed, utopias seem abundantly diverse, but when we examine them carefully we find many points of agreement. They are naturally vague, indistinct, shadowy, and if reality is sought for by the introduction of fictitious persons, the didactic element destroys the fiction; the princes, magistrates, and guardians, in general, are less real than Swift's *Houyhnhynns*. It is doubtful if any utopia has retained its hold on the public beyond its day and generation, that is to say, beyond the time when the satire, conscious or unconscious, has lost its force through the change of social conditions. An appeal to the lending libraries would give a poor return even for Plato's *Republic*, and Sir Thomas More's *Utopia*. If old utopias are read at all, it is generally as part of the literature, or of the history of philosophy, and not as practical guides to economic reform.

§ 3. *Modern Socialism—Exposition.* It is the boast, however, of modern socialists, that their schemes are due, not to efforts of the imagination, but to the careful study of history and the observation and criticism of actual conditions. They base their doctrines on the theory of evolution, and their tone is rather prophetic than didactic, that is to say, they take up the position that in the past and present of social arrangements they can discover certain tendencies which only need time for their full development into the socialism which they regard as an ideal. Socialism of this kind has already a vast literature, and it is hazardous, and perhaps unfair, to attempt a general description and criticism; at the same time to select one or two particular writers would be arbitrary and out of harmony with the proportions of the present work. The brief account that follows must be taken as representing the impressions formed, in the manner of composite

photographs, from a survey of a number of works which are usually described as socialistic, and are certainly modern.

In the first place, then, the socialists of the order it is now intended to describe maintain that the development of the modern industrial system has resulted in the concentration of capital in large masses, with a corresponding increase in the power of capital over labour. Next, they insist that competition leads directly and indirectly to the exploitation and degradation of labour; directly, because the competition of labourers with one another leads them to accept 'necessary' wages, and indirectly, because the competition of capitalists with one another causes over-production, commercial crises, and general instability of industry. Further, they argue that the inequalities in the distribution of wealth, and the disproportionate rewards given to the various contributors to the social well-being, are due, not simply to the privileges and spoliation of the past, but are a necessary result of the present system — the system of capitalistic production is "continuous robbery." Accordingly, it would be of no avail to rectify the survivals of past evils, to make, for example, an equal distribution of the various existing forms of wealth, for unless the whole system resting on large capitals and competition were destroyed, these evils would very soon reappear. The central idea of the proposed reform or revolution is thus to make the state the sole owner of capital — that is to say, of land and all the instruments of production — and in place of competition to substitute organisation. The transition, it is supposed, will, in the course of time, become comparatively easy, because when production has attained a certain magnitude, all that is necessary will be to appoint official managers instead of competing *entrepreneurs*. In support of this view, the socialists point to the state regulation of the army and navy, of railways and of education, and to the continuous increase in the industrial functions of government. In

fact, some recent writers prefer to describe their socialism not as a definite and particular reconstruction of society but as a tendency, which may manifest itself in a multitude of forms, towards the increase in the power of the state in the control of industry.

§ 4. *Modern Socialism — Criticism.* The reader of the preceding pages will readily understand that in my view, socialism of this kind is based on a total misconception of history, and sets up an ideal with which I can have no sympathy. The doctrine which Mill regarded as his most important contribution to political economy, namely, that the distribution of wealth depends ultimately on popular opinion and that the various schemes of communism and socialism cannot be truly said to be impracticable, has, in my opinion, been mischievous, both in theory and practice; in theory, because it has caused the great results obtained by the so-called orthodox economists, such as Adam Smith and Ricardo, to be neglected or undervalued, and in practice, because one of the principal supports of individual liberty has been weakened. The younger generation of economists think it is their principal business to invent and justify new modes of governmental interference, and the secondary and remote effects they look upon as quantities that may be neglected. They take much pleasure in expressing the sentiments and emotions aroused in their minds by industrial conflicts and the contemplation of the submerged tenth. They have a child-like faith in the omnipotence of a duly reformed Parliament, in the altruism of the common man, and in the virtue of obedience. On these points, however, I have to confess myself a disciple of Adam Smith, who believed very little in senates, and less in those who profess to trade for the public good and who, in his praises of liberty, has had the singular honour of furnishing mottoes and texts to the literature of Russian anarchists.

The general result of a survey of the economic history of progressive societies appears to be, that although cer-

tain kinds of organisation have at first satisfied some real need and done good work, none have shown themselves capable of adaptation to varying circumstances, but on the contrary by keeping to the letter of their rules and taking advantage of their powers, for the selfish purposes of the members, they have become worse than useless. It is hardly too much to say that the great agency of progress has been competition, and the great obstructive the debris of old organisations. This failure of organisation and control from above is so marked, and is seen under such different circumstances, that it seems natural to seek for some very general explanation, especially if we are to apply the teaching of history to our own times.

Socialists and others who are continually calling for fresh functions to be imposed on the state, or the municipalities, or communities within the state, are liable to make two distinct mistakes regarding the appeal to history. In the first place, they exaggerate the benefits derived from control, whilst for a brief period an institution was vigorous and rational, and they overlook the natural decay; whilst as regards competition and individual freedom they exaggerate the evil results and minimise the good. This is the first error — an error of fact and historical perspective. The second is to suppose that granting the failure of state interference in the past, circumstances at present are so different, and the ideas of regulation to be applied so much more just and beneficial, that the history of the past has little to teach even in the way of warning. But many organisations in the past certainly did not fail for want of nobility of aim, and the Church, in the mediæval period, tried to enforce, and so far as law was concerned, did enforce many of the doctrines which it is the aim of the socialists of our day to establish. Especially, as already shown, did the church insist on the dignity, the moral discipline, and the real worth of labour. It refused to allow interest in any shape or form — it taught that time as such and dead capital as such had no claim to reward.

The church, actuated by the same lofty conceptions, struck also at every form of speculation, it aimed at fixing the just price of goods, and at preventing the middleman from reaping where he had not sown. It struck, too, at the extravagance of the rich, and by its agencies immense sums were spent upon the education of children, and relieving the necessities of the poor. The mediæval church has never received the due reward of praise for its nobleness of purpose; the evil done has lingered in the memory, but the good has been forgotten. There can, however, be no doubt, that for genuine enthusiasm for humanity, it would be difficult to find the equals of the original founders of the great orders of monks and friars. The heart of the world has recently been stirred by the record of the life of Father Damien; but we forget that in the Middle Ages every town in England had its lepers, and that one of the greatest orders of friars — the Franciscan — was especially founded to succour and soothe these miserable outcasts. There is no finer picture in history than the description of the way in which a cultured man, in the fulness of health and youth, ate from the same plate, and shared in every detail the horrible life of the meanest lepers. Most emphatically it was not in nobility of aim, that the Christian Socialism of the Middle Ages failed, and our modern religion of humanity will have to acquire warmer feelings and wider views before it can hope to arouse in its disciples any resemblance to mediæval enthusiasm.

And yet the mediæval church was a gigantic failure, and, just as on the religious side, a reformation was needed, the essence of which was the right of individual judgment, so also, on the economic side a similar revolution was inevitable — the essence of which also was the freedom of the individual. It is a saddening truth, repeated over and over again in history, that the acquisition of wealth and authority by any society has generally sufficed to make it forget its original duties and to cause to spring

up all those evils of selfishness and inhumanity which it was expressly designed to combat. Such was the fate of the great religious societies and such was the fate of the guilds and industrial organisations.

The failure of control in so many forms, and in so many cases with such splendid regulative ideas, must obviously be due to some very general causes.

It seems impossible to increase the power for good without, at the same time, increasing the opportunity for abusing that power. Authority granted for one purpose, endowments and property accumulated for one set of ideas are used superficially and in appearance only, for the original design, whilst in essence, they are used for the selfish aims of the actual representatives for the time being. Industrial control is primarily intended to check the results of selfish human nature, but it must work by men, and enthusiasm and ruling noble ideas cannot be passed on like wealth and power. It is so easy to strain the letter, and so difficult to keep the spirit of just laws. Again, not only are the agents human and liable to abuse their powers, but they have not — they cannot have — the knowledge and the foresight to guide the development of a great nation. The only force that can grapple with the infinities of ignorance is the force of freedom with its infinite variations of individual and circumstance. Thus, negatively, authority has failed because it cannot suppress the selfish tendencies, and freedom has succeeded, because instead of aiming at suppression, it has given full scope to the play of individual effort. Competition of individual with individual has done more for the progress of society, than all the authority and organisations which one set of human beings have made others obey. No economist ever stated the truth better than the poet: —

“The old order changeth, giving place to new,
Lest any good custom should corrupt the world.”

The great economic forces which are implied in competition have not only destroyed such palpable evils as serfdom

and class distinction, but they have opened up the ways for development, which, with the best of intentions, had been closed by governments and religions. I repeat that I do not mean to assert that governments and societies have no industrial functions,¹ nor did Adam Smith nor any of the great economists who have lauded the benefits of freedom and exposed the weakness of governments. But it is desirable to emphasise most that which is most apt to be forgotten, and in these days, no one is likely to forget that the state and trade-unions and co-operative societies have power for good. The factory acts which protect children against the criminal carelessness and selfishness of parents and employers, show the beneficial power of the state; trade-unions have enabled labour, in many cases, to make a just bargain, otherwise impossible, and have trained their members to a sense of new responsibility; whilst the objection most frequently made to co-operative societies is, that they are not numerous and not large enough.

But whilst we allow that certain forms of voluntary or compulsory organisation may be beneficial, we must not forget that freedom of action and freedom of movement are the essential conditions of industrial development.

§ 5. *Modern Socialism — Special Criticism.* It is a common answer with scientific men when challenged to expose the devices of the spiritualists, to say that when the spirits reveal anything of importance they will be prepared to sacrifice the necessary time. The economist might well be excused for adopting a similar attitude towards the protean forms of state socialism, which are manifestly impracticable. There is, however, some advantage to be derived from the contrast of these schemes with the present system of society. In the first place, it is clear, that if the state is to control distribution, it must also control production; it must determine the kinds of occupation, the hours of labour, the localities for work

¹ These will be examined in Vol. II., Bk. V.

and residence, and, in brief, must circulate the power of its authority alike through the main arteries and the smallest capillaries of industry. How, under a complicated system of division of labour, such a degree of organisation could be obtained, seems absolutely inconceivable. The magnitude of the change is perhaps best seen from the usual proposal to abolish the use of money. Let any one try to imagine how the business of a great country is to be carried on without money and prices, how the value to the society of various species of labour is to be estimated, and how the relative utilities of consumable commodities and transient services are to be calculated, and he will soon discover that the abolition of money would logically end in the abolition of division of labour. This prospect throws a strong light on the claims of the socialists to base their doctrines on the tendencies of history and the actual processes of evolution, for as already shown in detail, the principal characteristic of industrial progress has been the continuous extension of the use of money. In reality, however, socialism is still more vitally opposed to historical development, since it aims at reversing the broadest principle of progress, the continuous substitution, namely, of contract for status. It is equally false in its assumptions as to the present relations of capital and labour; the idea of the tyranny of dead capital over living labour is utterly unreal; dead capital without living capital is powerless, and living capital is stored in the brains and hearts of men. The interest pure and simple, apart from wages of superintendence, on the dead capital of the United Kingdom is probably less than one-third of the gross annual income, and most of it is due to labour in the past of a highly specialised kind, which has benefited society to a much greater extent.¹ The notion that the modern system has tended to make one very large class of very poor and one very small class of very rich, is

¹ Consider, for example, the interest afforded by railways, banks, and improvements in lands and buildings.

the reverse of the truth. It is in countries in which the principle of competition is carried to the greatest pitch, that the middle class is relatively greatest, and the proportion of skilled to the unskilled workmen the highest. Not only, however, does socialism rest upon a false view of past and present conditions, but it sets up an ideal which would dwarf the minds and cripple the energies of mankind. The principle of population would soon assert itself, and because an objection is not new, it does not follow that it is not valid. Above all, the liberty of the individual would be stifled, and with it, self-reliance, independence, and enterprise. State socialism, if carried out, could only end in state pauperism, and the best critique on the so-called historical socialism is the history of the English Poor Laws.

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